2024

GLOBAL SOVEREIGN DEBT MONITOR

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Entwicklung braucht Entschuldung

GLOBAL SOVEREIGN DEBT MONITOR 2024

At a glance

Compared to the years during the COVID-19 crisis, in some countries of the Global South the debt situation has slightly eased. For most countries there, however, the debt situation remains tense.

The debt situation worldwide: In 130 of the 152 countries surveyed in the Global South, the debt situation is at least slightly critical; in 24 of these countries, the situation is very critical. Overall, 55% of the countries surveyed are critically or very critically indebted – in contrast to only 37% before the COVID-19 pandemic.

→ **Negative record:** In 2024, countries in the Global South have to make more debt service payments to their external creditors than ever before. For 45 countries, more than 15% of government revenue flows into debt servicing.

→ **No money for the future:** Due to high debt service payments, there is no financial leeway for climate protection, social services or investments in the future. Countries with a very critical debt level in particular are forced to significantly cut back on public spending.

→ **Short-sighted solutions:** increasing liquidity in the short-term is considered the most efficient way to fund climate change mitigation. However, this solution often ignores the need to restore sustainable debt levels in the long term.

→ **Private creditors pull out:** For the first time, net credit flows from private creditors to the entire Global South are negative. Multilateral creditors are stepping in to fill the resulting funding gaps. However, their preferred creditor status complicates achieving equitable burden-sharing in debt relief efforts.

→ **Creditor interests predominate:** The first debt restructuring processes of over-indebted countries in the wake of the COVID-19 pandemic show that creditors are granting as little debt relief as possible. The countries' long-term recovery is deliberately neglected.

Recommendations to the German Federal Government

The German Federal Government must take political action now to meet its commitment to a codified sovereign debt workout mechanism, as promised in the coalition agreement, within the current legislative period. The German debt relief movement has presented comprehensive reform proposals based on the analyses of the Global Sovereign Debt Monitor.

The German Federal Government should

→ **contribute to the binding participation of all creditors in debt relief, especially private creditors.** To this end, the German Federal Government should initiate own legislative measures and encourage other governments to adopt similar legislation.

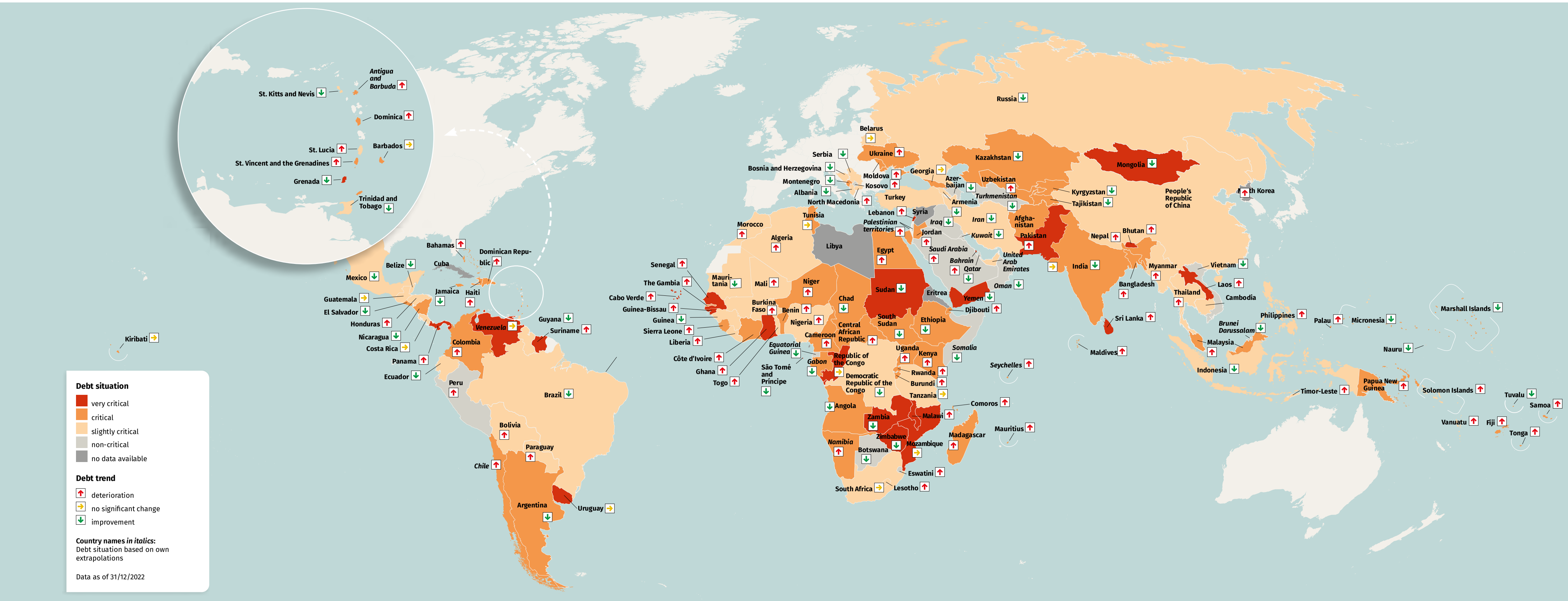
→ **combine steps to overcome both the climate and the debt crisis.** At the COP29 in Azerbaijan, the German Federal Government should proactively propose debt relief as a means to strengthen climate finance. Moreover, it should actively and politically support climate-vulnerable states' proposals for better access to fair debt relief.

→ **finally lay the political foundation for a sovereign insolvency process.** To this end, the German Federal Government should commission an independent, publicly accessible evaluation of the debt restructuring processes to date based on the UN principles for sovereign insolvency processes. The findings should be systematically applied to shape Germany's position during discussions on global debt architecture reforms at international events, such as the UN Summit of the Future in September 2024 or the Fourth International Conference on Financing for Development in 2025.

For all political measures, the ultimate goal of the German Federal Government must be to safeguard human rights in the debtor countries: Political decisions must once and for all prioritise people's rights and needs over creditors' profit interests.

Global debt situation

Map showing the debt situation of critically indebted countries in the Global South as well as the debt trend



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Editors:
Dr Nina Brodbeck
Elise Kopper, responsible
Kristina Rehbein
Dr Klaus Schilder
Malina Stutz

Layout and typesetting:
Elise Kopper and Mara Liebal

Map on global debt situation:
GRIP.S medien GmbH&Co.KG

Translation:
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erlassjahr.de - Entwicklung braucht Entschuldung e. V.
Carl-Mosterts-Platz 1
40477 Düsseldorf
Germany
Tel.: 0049 (0)211 / 4693-196
E-Mail: buero@erlassjahr.de
www.erlassjahr.de

Bischöfliches Hilfswerk MISEREOR e. V.
Mozartstraße 9
52064 Aachen
Germany
Tel.: 0049 (0)241 / 442-0
E-Mail: bestellung@misereor.de
www.misereor.de

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CONTRIBUTORS

Dr Ahilan Kadirgamar is a political economist and senior lecturer at the University of Jaffna. He is also the Chair of the Northern Co-operative Development Bank.

Kristina Rehbein is Political Coordinator at erlassjahr.de, with responsibility for advocacy work and the content focus of the alliance. She represents erlassjahr.de on the Board of the European Network on Debt and Development (EURODAD).

Malina Stutz has been Policy Officer at erlassjahr.de since 2021. One of her focus areas is the question as to how private creditors' participation in comprehensive debt relief can be ensured and what role national legislation in countries of the Global North can play to achieve this.

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Human rights instead of debt service!

Germany must fulfil its responsibility now: here's how

Picture: Mellenthin/Misereor

Pirmin Spiegel has been Director General and Chairman of the Board of Misereor since 2012. He studied theology and philosophy and was ordained as a priest in 1986.

Picture: Martina Waiblinger

Prof Dr Andrés Musacchio is an Argentinian economist who, as a result of his background, is regularly engaged in debt crisis work. He has dealt with debt issues both in research at the University of Buenos Aires and in his role as lecturer and head of studies at the Protestant Academy Bad Boll. He has been representing the Academy at the erlassjahr.de Council since 2019.

Last year the international community carried out a mid-term review of the implementation of the UN's 2030 Agenda and its Sustainable Development Goals (SDGs). The sobering result was that more than half of the SDGs have seen only weak or insufficient progress and for one third the trend is even negative. The picture is particularly dramatic when considering SDG 2 (fight against hunger). The global crises and their impacts have deeply impacted many countries.

In 2024, the governments of indebted countries in the Global South have to pay back more to external creditors than ever before. More than USD 1 billion a day is needed for debt service payments. According to the UN report titled A World of Debt, more than 3.3 billion people – almost half of the world's population – live in countries that spend more on debt service than on education or healthcare. The UN Secretary-General calls this downward spiral a 'systemic failure' of the global community.

Heavily indebted countries are often compelled to export extensively because earning a foreign trade surplus is the only way to obtain the required hard currency for debt service. This often forces states to take drastic measures: they restrict their citizens' consumption, neglect sustainability criteria and labour rights in production, and harm the environment, falling into a pattern of neo-colonial exploitation. These connections highlight that the global debt crisis is a major cause of famines and a significant reason for our failure to achieve the SDGs.

The worldwide debt situation analysed by erlassjahr.de and Misereor in this Global Sovereign Debt Monitor 2024 reveals an ongoing debt crisis in many countries of the Global South. In 130 out of 152 countries surveyed, the number of at least slightly critically indebted countries is nearly as high as it was in 2020, the peak of the COVID-19 pandemic, when 135 out of 148 countries surveyed were at least slightly critically indebted *(see 'The global debt situation', p. 8)*. However, for these countries, no lasting solution to the problem has emerged since then. Existing debt workout mechanisms are inadequate and heavily influenced by the interests of creditors.

A major challenge remains to unite all stakeholders and creditors involved in resolving a country's debt crisis to negotiate adequate debt relief. Our analysis shows how complex the creditor landscape is. The majority of claims against the Global South are held by private creditors, followed by the multilateral development banks. However, official bilateral creditors such as

Germany also continue to be important. But not only because of that, countries such as Germany have significant responsibility to ensure fair debt relief. They especially have political sway over private and multilateral creditors: 70% of claims against the Global South can be counted as responsibility of the EU and G7 member states *(see 'Creditors worldwide', p. 20)*.

In response to debt crises, many countries must adopt extensive austerity measures – partly because creditors are rarely willing to cancel their claims. This often means deep cuts to basic social services. In Sri Lanka, for example, the steep rise in food and energy prices severely impacts people's daily lives. At the same time, the reduction of social benefits is progressing, with access to free education and universal healthcare becoming increasingly restricted. As a result, malnutrition, school drop-outs and youth unemployment are all increasing *(see 'Austerity, dispossession and injustice: Facets of the debt crisis in Sri Lanka', p. 44)*.

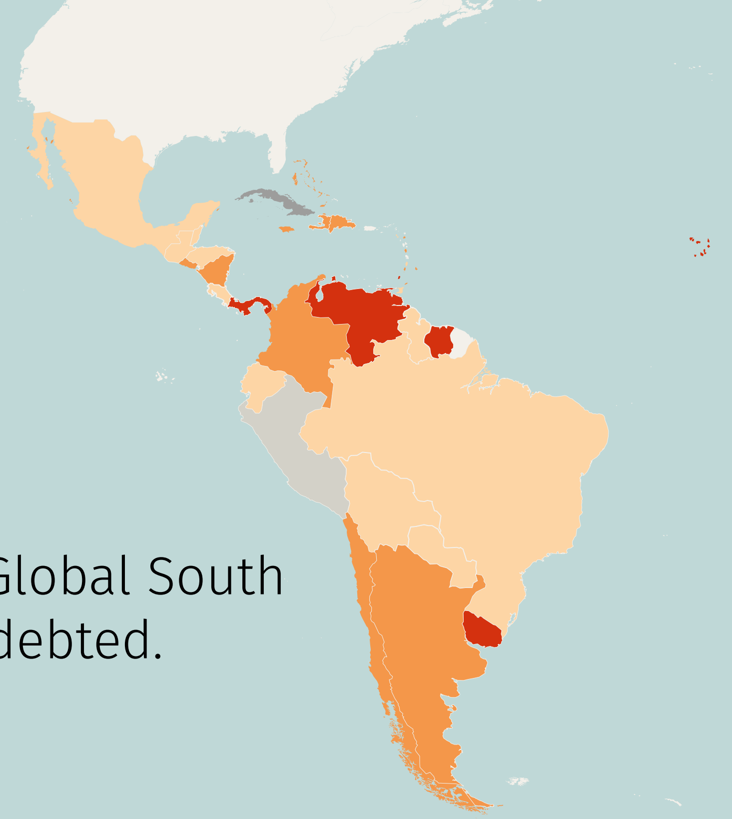
Heavily indebted countries like Sri Lanka must now get the fiscal leeway needed to meaningfully pursue the SDGs and start transforming into sustainable, future-oriented societies. In this context, tackling the climate crisis must take centre stage. Debt relief can alleviate the burdens on the national budget, thereby enhancing resilience to climate change impacts. In addition to a temporary moratorium on payments in the event of climate and natural disasters, a fair debt workout mechanism should ensure that the affected state maintains long-term economic viability. Exploring solutions for the climate crisis could actually be a catalyst for overcoming the political deadlock that hinders lasting solutions in global debt management *(see 'Just debt relief for more climate justice', p. 36)*.

In times of multiple crises, development cooperation is essential for the urgently needed socio-ecological transformation. However, increasingly less public funding is available for this purpose. In Germany, the government implemented a strict austerity plan for the 2024 budget, cutting funding by 8% for the Federal Ministry for Economic Cooperation and Development and by 18% for humanitarian aid managed by the German Federal Foreign Office. The German Federal Government is rapidly backpedaling at a time when official support for those hardest hit by global crises should be at its strongest. By doing this, the government is not just succumbing to budgetary constraints, but also yielding to populist voices. These voices reject the principle of global solidarity both in Germany and internationally, prioritising supposed national interests based on short-sighted reasoning.

Today, more than ever, as the strain on the budgets of heavily indebted countries intensifies, we need a shift towards long-term funding for sustainable development. We need a firm political commitment from the German Federal Government towards solving the global debt crisis. In this regard, the interests and needs of the people in the countries in question must be prioritised. Safeguarding and respecting human rights is the key prerequisite for fostering a peaceful and just world, upon which the future of all of us depends.

We hope you enjoy reading the report.

Andrés Musacchio and Pirmin Spiegel



The global debt situation

Currently, 130 countries in the Global South are at least slightly critically indebted.

By Malina Stutz

The debt situation of many countries in the Global South remains very serious: 55% of the countries surveyed are in a critical or very critical debt situation. In 2024, countries in the Global South have to pay back more to external creditors than ever before. More than USD 1 billion a day is needed for debt service payments. In order to cope with this enormous burden, domestic spending – for example on social support measures – is being cut significantly.

We analyse the debt situation of countries in the Global South[1] using five indicators, each of which relates the debt stock or debt service to an indicator of economic performance. Three indicators relate to a country's total public and private external debt, and two refer to total public debt, domestic and external *(see Figure 1 'Debt composition')*.

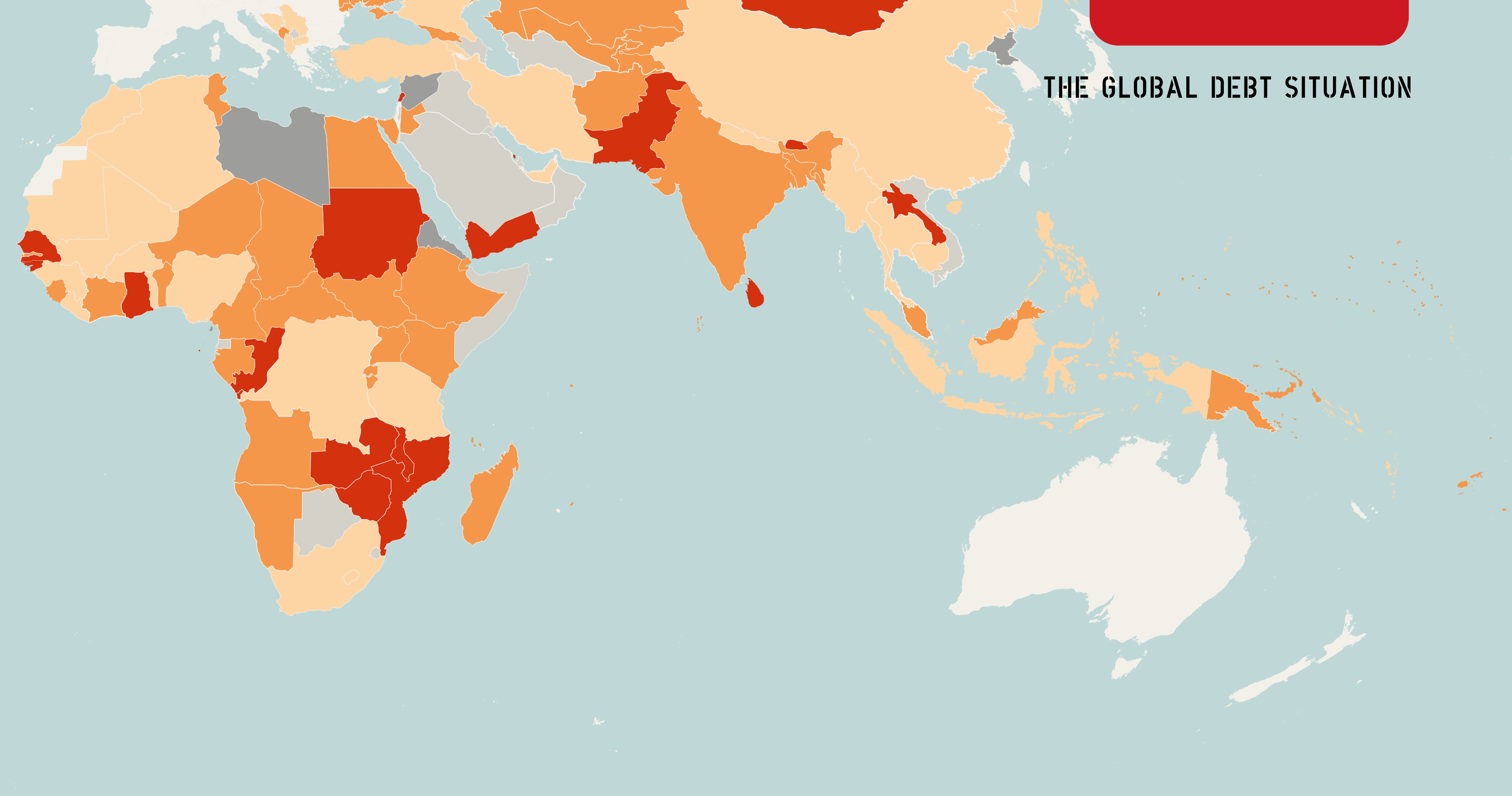
Our analysis determines the risk of debt distress in two ways: firstly, we assess the current debt situation as non-critical, slightly critical, critical or very critical based on the level of the five indicators and the breach of the respective thresholds *(see box on methodology, pp. 18-19)*. Secondly, we analyse the development of the five indicators over the last three years, i.e. between 2019 and 2022. Specifically, we examine how many indicators have improved by at least 10% and how many have deteriorated by at least 10%, yielding a trend for each country that is generally positive, negative or neutral *(see arrows on the world map, p. 3)*. All data for the assessment of the general debt situation are based on the cut-off date 31 December 2022. Beyond that, in order to get as up-to-date an impression of the situation as possible, we take a separate look at the debt service obligations that have to be met in 2024.

Global external debt

The nominal external debt of all low- and middle-income countries reported by the World Bank totalled USD 8.705 trillion as at 31 December 2022.[2] Compared to 2021, this is a decrease of USD 297 billion. Nevertheless, external debt also remained at a very high level in 2022. Compared to 2010, when debt in the Global South began to build up again following the debt relief initiatives of the early 2000s,[3] the external debt of all low- and middle-income countries (excluding China) has risen by more than 80%. By contrast, gross national income in the same group of countries grew by only around half in the same period *(see Figure 2)*.

Since 2010, the external debt of all low- and middle-income countries has risen by more than 80%.

At the end of 2022, the mean external debt of all low- and middle-income countries as a share of the total economic output of this group of countries was 57%, with a median value of 50.5%. This is slightly below the maximum values of 2020, when the external debt ratio soared as a result of the global economic collapse caused by the COVID-19 pandemic. However, the high debt level of 2019, when both the World Bank and the IMF warned of a new debt crisis in the Global South, was not reached again.[4]



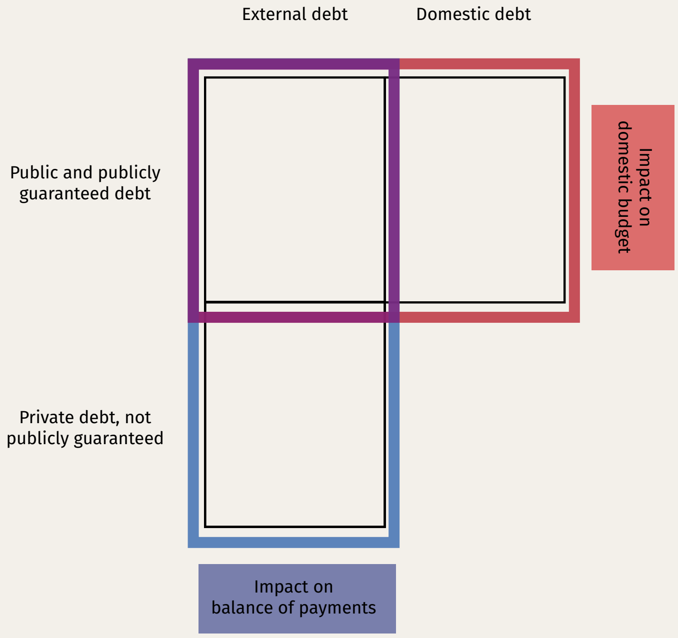
The slight decline in nominal external debt is firstly due to the fact that the increase in interest rates in the USA from March 2022 caused other reserve currencies to lose value in relation to the dollar. External debt issued in these currencies has therefore fallen when expressed in US dollars.[5] Hence, the resulting nominal decline in external debt does not mean that the debtor nations' real liabilities have decreased. On the contrary, the currencies of most countries in the Global South have depreciated even more against the US dollar, with the result that external debt indicators and the real burden of external debt service obligations have increased.[6]

Secondly, the slight decline in external debt is due to the fact that private investors in particular are withdrawing their capital from the Global South and debtor nations are often forced to make net principal repayments due to a lack of refinancing options *(see also 'Creditors worldwide', p. 20 onwards)*.

Indebted countries worldwide

Of the 152 countries surveyed, 130 are in a debt situation that is at least slightly critical. They are listed in Table 1 on pp. 54-56. The debt situation of 17 countries is considered to be non-critical.[7] We rate the debt situation as slightly critical in 46 countries and as critical in 60 countries *(see world map, p. 3)*. No reliable data were available on the debt situation of five countries.[8]

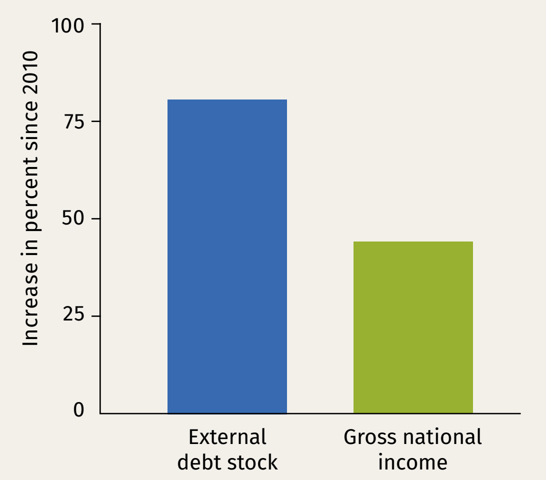
Fig. 1: Debt composition



Important points to consider when analysing a country's debt situation are, on the one hand, the country's total domestic and external public debt (red area), which can have a negative impact on its public budget and, on the other hand, the total debt of all economic actors abroad (blue area), as balance of payments difficulties can arise from foreign debt – especially in foreign currency.

For more information see: erlassjahr.de (2022): 'Handbuch: Von Gläubigern und Schuldnern', p. 13: 'Auslandsschulden und Schulden in ausländischer Währung'.

Fig. 2: Increase in external debt and gross national income in low- and middle-income countries (excluding China*) 2010-2022



Source: Own illustration based on data from the World Bank's International Debt Statistics (2023).

* Since China's gross national income (GNI) accounts for almost 50 percent of the GNI of all low- and middle-income countries combined, a combined view would significantly distort the overall picture.

In 24 countries, we even rate the debt situation as very critical.[9] In three countries (**Bahrain**, **Venezuela** and **Yemen**), this assessment is based solely on the high level of public debt, as no data are available for the external debt indicators *(see table on pp. 54-56)*. In **Panama**, **Uruguay** and **Mongolia**, on the other hand, the debt situation is considered to be very critical, primarily due to the very high external debt indicators. In the remaining 18 very critically indebted countries, both criteria are equally high.

Eighteen countries whose debt situation was still rated as very critical in the Global Sovereign Debt Monitor 2023 no longer fall into this category in this year's analysis. This includes **Eritrea**, for which we did not have any reliable data. However, we cannot assume that the debt situation in the East African coastal state has actually improved.[10] The debt situation in 13 of the 18 countries is, based on the five indicators analysed, now rated as critical.[11] We can therefore assume that the debt situation in these countries is still tense. The slight improvement in the indicators in these countries is mainly due to the fact that their economies grew again after the end of the COVID-19 pandemic in 2022. In all 13 countries, however, the preliminary data for economic growth in 2023 are again significantly below the 2022 level; **Argentina** even recorded negative growth in 2023.[12] Accordingly, we cannot assume that the debt situation in these countries will continue to ease simply by 'growing out of debt', i.e. without cancelling debt or making painful cuts at the expense of the population.

130 out of 150 countries surveyed are in a debt situation that is at least slightly critical.

A significant improvement in the debt indicators analysed can be seen in four countries. In last year's analysis, **Belize**, **Armenia**, **Somalia** and **Oman** still belonged to the group of very critically indebted countries. In this report, however, the debt situation in Belize and Armenia is only assessed as slightly critical and in Somalia and Oman as non-critical.

In **Belize**, three factors played a major role in this context: firstly, very high growth rates of around 15% in 2021 and 12% in 2022 were achieved. Secondly, Belize implemented particularly harsh austerity measures and cut public spending by more than 7% of the gross domestic product (GDP) in 2021. Some of the spending cuts were sharply criticised by the population and trade unions.[13] Thirdly, Belize restructured its external debt as part of two procedures: in December 2022, Venezuela and Belize agreed to cancel Venezuelan claims from previous oil deals totalling USD 129 to 164 million (around 4.3% of Belize's GDP).[14] In 2021, Belize had already bought back part of its outstanding bond debt at a devalued price as part of a high-profile 'blue bond' deal, which reduced the national debt by 9% of GDP and allowed debt service payments to be postponed into the future. The deal was also meant to provide additional funding for marine conservation. However, civil society criticised the deal for its high transaction costs, lack of transparency and for diluting the general principle of debt conversions, as unlike with real debt conversions, in this type of operation that Belize used, creditors are paid exactly what their claims are worth at the current market value each day, resulting in no voluntary concessions on their part.[15]

Belize implemented particularly harsh austerity measures.

Armenia also recorded high growth rates in 2021 and 2022, which contributed to a reduction in debt service indicators. In addition, unlike most low- and middle-income countries, Armenia experienced strong capital inflows, which led to an appreciation of the national currency and thus to a reduction in external debt indicators which made it easier for the country to service external debt.

Somalia was one of the last countries to benefit from the Heavily Indebted Poor Countries Initiative (HIPC), under which USD 4.5 billion in outstanding debt was cancelled in December 2023. This corresponds to 90% of Somalia's external debt.[16]

Under the HIPC Initiative, approximately 90% of Somalia's external debt was cancelled in 2023.

In **Oman**, both high public and high external debt indicators were responsible for the Gulf state's classification as a very critically indebted country in the Global Sovereign Debt Monitor 2023. The public indicators of the oil-exporting country improved significantly as at the reporting date, 31 December 2022, probably due to rising energy commodity prices. However, we do not have reliable data on external debt this year. According to the rating agency Fitch, while external debt levels have also improved here, external debt is still at a relatively high level.[17]

In **Laos** and **Uruguay**, on the other hand, the situation has deteriorated further, meaning that they are categorised as very critically indebted countries this year. **Laos** has had high debt indicators for many years. Laos is heavily indebted to its neighbour China in particular *(see also 'Creditors worldwide', p. 20 onwards)*. Since 2017, the Southeast Asian state has consistently pursued an austerity policy. Unlike in almost all countries worldwide, public spending in relation to GDP was also cut in 2020, the year of the COVID-19 crisis. Since 2022, the specialised press has repeatedly speculated about a possible sovereign default of Laos. We already rated the country's debt situation as very critical in the Global Sovereign Debt Monitor 2022. The Southeast Asian country left this category by a small margin in the Global Sovereign Debt Monitor 2023. We had also already rated **Uruguay**'s debt situation as critical over the last three years. The main reason for the new classification as very critical mainly lies in the high level of private and public external debt held by bondholders.

Since 2022, the specialised press has repeatedly speculated about a possible sovereign default of Laos.

Critically indebted countries by world region

As at the reporting date of this Global Sovereign Debt Monitor (31 December 2022), 55% of the countries surveyed worldwide were in a critical or very critical debt situation *(see Figure 3)*. This is slightly less than in the two previous COVID-19 crisis years of 2020 and 2021, in which 67% and 64% of countries, respectively, were allocated to these two categories. However, the percentage of countries which are critically to very critically indebted is still much higher than in 2019 (37%), the year before the onset of the COVID-19 pandemic. They include countries in all income categories and world regions.

The debt situation in **sub-Saharan Africa** is particularly problematic: we rate the debt situation as very critical in 11 countries and critical in 22 countries of the region *(see world map on p. 3)*. This means that a total of 67% of sub-Saharan African countries belong to the group of critically or very critically indebted countries *(see Figure 3)*. One of the reasons for this is that in 2022, the economy in sub-Saharan Africa grew much more slowly than other regions of the world in the Global South. Compared to 2019, the situation has worsened in around 60% of the countries in the region *(see Figure 4)*.

In **Latin America and the Caribbean, South Asia, Southeast Asia and the Pacific**, we also rate the debt situation as critical or very critical in more than half of the countries analysed *(see Figure 3)*. In **Latin America and the Caribbean**, the debt situation has been persistently problematic for many years. The number of countries in which the situation has worsened significantly since 2019 is roughly equal to the number of countries in which the situation has remained the same or even improved since 2019. However, the high level of debt is new in **South Asia, Southeast Asia and the Pacific**. Compared to 2019, the situation has deteriorated significantly in over 60% of the countries surveyed. These include **Bhutan**, **Laos**, **Sri Lanka** and **Pakistan**, whose debt situation is rated as very critical in this Global Sovereign Debt Monitor *(see Figure 4)*.

At an aggregate level, the debt situation in **Europe and Central Asia** as well as in **North Africa and the Middle East** is the least problematic. Nevertheless, we consider the situation in three countries in North Africa and the Middle East – **Yemen**, **Lebanon** and **Bahrain** – to be very critical. In fact, Lebanon is the only country in the world where all five indicators analysed exceed the highest threshold value *(see Table 1 on pp. 54-56)*. In addition, the debt situation in North Africa and the Middle East has also worsened significantly compared to 2019 *(see Figure 4)*. The situation is different in Europe and Central Asia. In stark contrast to the other regions, the debt situation here has eased in over 60% of countries over the last three years. Exceptions to this trend include **Ukraine**, **Uzbekistan** and the **Republic of Moldova**. Their debt situation has deteriorated significantly over the last three years and is assessed as critical in this report.

Fig. 3: Critically indebted countries (by region and worldwide, in %)

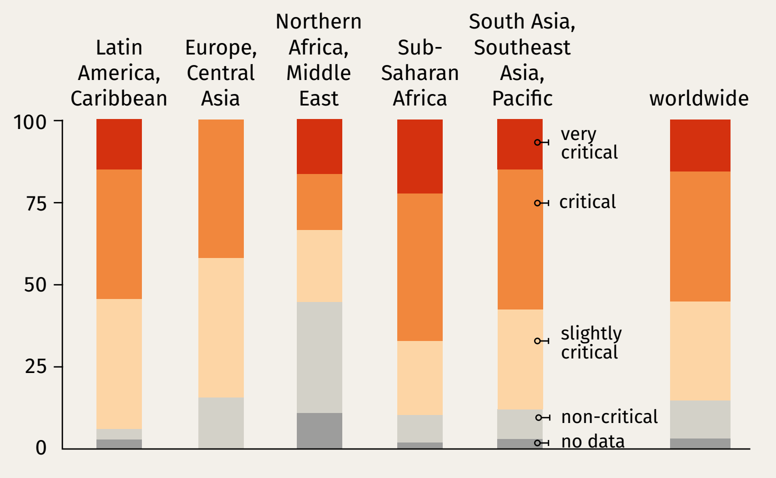
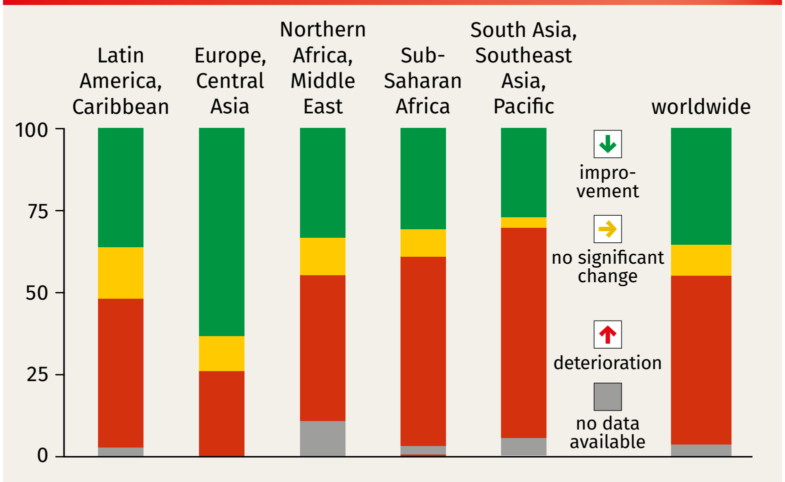


Fig. 4: Debt trend (by region and world-wide, in %)



Source: Own illustration and own analysis using the methodology described on pp. 18-19. Data based on the World Bank's International Debt Statistics, IMF data and, in some cases, data from national finance ministries and central banks.

Debt service payments

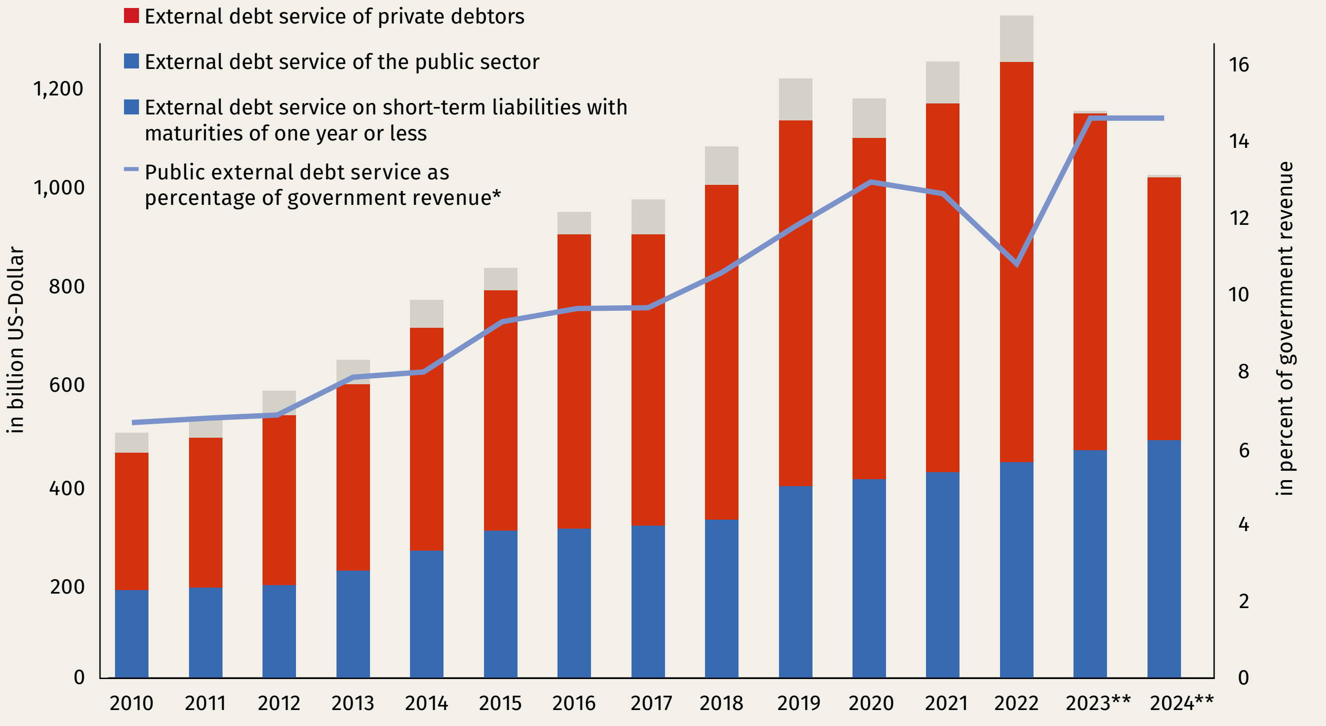
In times of multiple crises, when the debt situation changes rapidly, it is worth analysing debt service payments in detail. This detailed analysis gives a better idea of the situation that countries in the Global South are currently facing. While the general debt situation could only be analysed retrospectively at the end of 2022, it was already possible to receive debt service data for 2023 and debt service estimates for 2024 as well as for the coming years. Debt service data show very clearly how restrictive high debt values currently are for a state already at present. While the stock indicators do not provide any information on how much interest has been paid and when repayments are due, debt service data indicate how much a state has to pay to external lenders each year in interest and principal payments. Governments' fiscal leeway – such as their ability to invest in sustainable economic sectors – is therefore directly influenced by debt servicing.

Since 2010, total external debt service payments of low- and middle-income countries increased from about USD 465 billion to USD 1.257 trillion in 2022. While debt service payments have decreased since 2023 for private debtors from low- and middle-income countries according to the first preliminary data available, they will continue to rise for the public sector in 2023 and 2024 *(see Figure 5)*. In 2024, it is estimated that governments in the Global South will have to pay around USD 487 billion in interest and principal payments to external lenders. This is more than USD 1 billion per day.

It is true that a comparison of nominal payment obligations over the last decade is only of limited value. However, since the build-up of the new debt crisis since 2010, debt service has not only risen in nominal terms. Rather, economic development and the development of government revenue in particular could not keep up with the increase of the debt service, especially since 2015. In 2024, it is

In 2024, governments of the Global South need to make higher debt service payments to external creditors than ever before.

Fig. 5: External debt service of all low- and middle-income countries 2010 to 2024



* Unweighted average for all low- and middle-income countries

** Projections

Source: Own illustration and calculation based on data from the World Bank's International Debt Statistics and the IMF's World Economic Outlook.

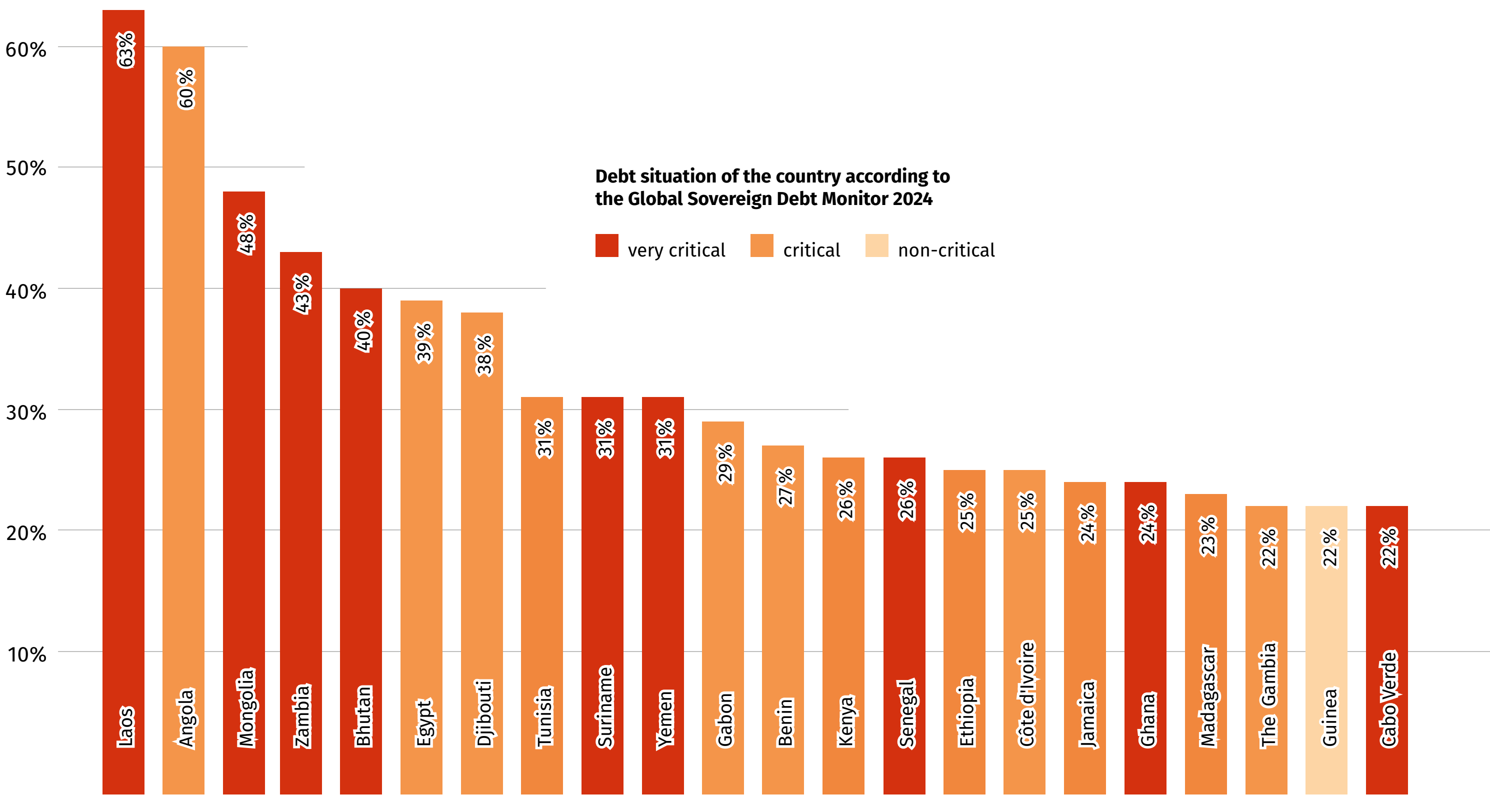
estimated that governments in the Global South will have to spend an average of 14.7% of their public revenues on interest and principal payments to external creditors. By way of comparison: under the HIPC debt relief initiative of the 1990s and early 2000s, a maximum debt service to revenue ratio of 15% was aimed for, as a higher value was no longer considered sustainable. Forty-five countries will have to raise more than these 15% of their government revenue to service their debt to external creditors in 2024 *(see Figure 6)*. **Laos** and **Angola** will even have to raise around 60% of their government revenue to service external creditors – which will severely restrict their fiscal room for manoeuvre for domestic spending.

Not all countries that will have to service a particularly high level of debt in 2024 can also be identified as very critically indebted countries according to our methodology. This is due to two factors: on the one hand, it is possible that in 2022 they still had to make comparatively few external interest and principal payments.[18] This applies to **Guinea** and **North Macedonia**, for example. On the other hand, the high burden of external debt service may not be visible in the general analysis because other debt indicators are low. **Indonesia** and **Belarus**, for example, already had to make high external interest and principal payments in 2022. However, as the indicators for their public debt situation were low, their general debt situation is assessed as only slightly critical here.

In 2024, Laos and Angola will have to raise around 60% of their government revenue to service external creditors.

High debt service payments are particularly problematic for countries if refinancing – i.e. repaying previously incurred debt by new borrowing – is not a sustainable option. In this case, the required funds must be raised through savings in other areas.[19] Those countries whose general debt situation we assess as 'only' critical or slightly critical, but which will have to make particularly high interest and principal payments in 2024, should not be forgotten, in particular in light of the currently very tense funding situation *(see also 'Creditors worldwide', p. 20 onwards)*: high debt service obligations combined with poor refinancing options are likely to lead to cuts in domestic public spending in many countries, which will directly affect the population.

Fig. 6: Public debt service payments to external creditors in 2024 as a percentage of government revenue



Austerity as the answer

The wave of austerity that has hit almost every country in the world since 2021 has already been intensively analysed elsewhere.[20] Researchers argue that a trend could be observed after the end of the COVID-19 pandemic that was similar to the one after the 2008-2009 financial and economic crisis. During both crises, public spending was increased in the short term to cushion the impact of the crisis. This was followed by long-term sustained austerity measures. Compared to cuts from 2010, however, the current spending cuts are more extensive and affect more countries worldwide: measured in terms of GDP, more than 100 low- and middle-income countries already cut their domestic public spending from 2020 to 2021.

Our analysis shows that in 2022 and 2023, public spending continued to decline in most countries. The population in countries whose debt situation we consider to be very critical is particularly affected: in 2023, around 54% of all low- and middle-income countries (corresponding to 75 countries) cut their public spending. The average cut was 1.9% of GDP.[21] In the group of very critically indebted countries, more than 60% cut their spending in 2023 and the average cut was also significantly higher, at 2.4% of GDP.

In 2023, around 54% of all low- and middle-income countries cut their public spending.

The heavy impact on the population in very critically indebted countries also becomes clear when we look at the spending cuts over a longer period of time and compare the times before and after the COVID-19 pandemic: in the period from 2021 to 2023, annual public spending was lower in 46% of all low- and middle-income countries (66 countries) and in 58% of very critically indebted countries (14 countries) than in the decade from 2010 to 2019. These figures indicate that spending cuts are being implemented not least due to (very) critical debt levels in order to be able to continue servicing the high debt service obligations.

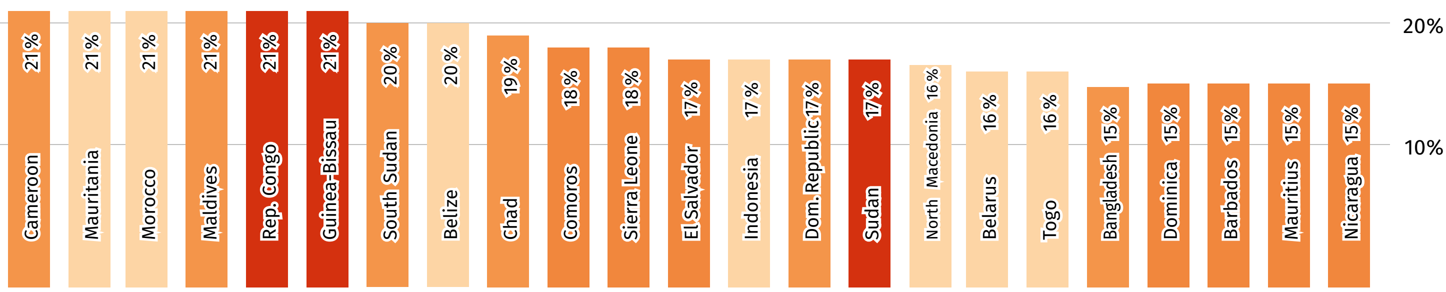
The population in very critically indebted countries is particularly affected.

An evaluation of the planned spending cuts by researchers Isabel Ortiz and Matthew Cummins shows that the austerity measures have a negative social impact and affect women and other vulnerable groups in particular.[22] For example, the cutting of expenditures for social benefits is the most frequently implemented measure and the reduction of wage costs in the public sector is the second most common measure *(see also 'Austerity, dispossession and injustice', p. 44 onwards)*. The latter particularly affects employees in the health and education sectors – sectors in which mainly women work. At the same time, it tends to be women who take on the additional care work at home arising as a result of these developments.

The austerity measures affect women and other vulnerable groups in particular.

These cuts are particularly problematic, as spending on domestic and external interest and principal payments by countries in the Global South is already on average 11 times higher than spending on social benefits, 4 times higher than health spending, 2.5 times higher than spending on education and 12.5 times higher than spending on climate adaptation measures.[23] For example, the debt service obligations in

In Lebanon, the debt service obligations exceeded education expenditure tenfold.



Source: Own illustration based on data from the World Bank International Debt Statistics (2023) and IMF country reports from 2023.

Lebanon, a very critically indebted country, exceeded education expenditure tenfold and in **Ghana**, another very critically indebted country, they were more than 11 times higher than healthcare expenditure.

Conclusion and outlook

The year 2023 marked the halfway point for implementing the 2030 Agenda's Sustainable Development Goals. Setbacks could be observed in almost all areas. However, although both the urgency of a more resolute implementation and the connection between the debt crisis, climate crisis and sustainable development crisis are widely recognised,[24] a clear change of direction in international debt policy has so far been lacking.

The available data on the debt situation of countries in the Global South clearly show that the granting of sufficient debt relief is a key prerequisite for tackling the most pressing challenges of the decade. Without more courageous political decisions that oblige all creditors to grant rapid and sufficiently extensive debt cancellations, poverty, inequality and, as a result, political instability and authoritarian tendencies threaten to increase further worldwide *(see also 'Austerity, dispossession and injustice', p. 44 onwards)*.

The year 2024 is particularly important for Germany in terms of initiating a change of direction in its international debt policy: 2024 is the last year in which the current German Federal Government can initiate reforms to fulfil the mandate set down in the coalition agreement to work towards a better international debt management consensus. Furthermore, important international processes are on the agenda with the UN 2024 Summit of the Future and the preparations for the Fourth International Conference on Financing for Development (FfD4) in 2025, during which pioneering reforms for fair debt workout mechanisms must be agreed.

Sufficient debt relief is a key prerequisite for tackling the most pressing challenges of the decade.

1 We have used the IMF's classification here and include all countries in the analysis that do not belong to the European Union and are categorised by the IMF as 'emerging markets' or 'developing economies'. In addition, there are two countries (Cuba and North Korea) that are not included in the IMF's classification but which can also not be clearly classified as belonging to the Global North. For a detailed explanation, see Stutz, M. (2023): 'The global debt situation' in erlassjahr.de; Misereor (2023): 'Global Sovereign Debt Monitor 2023', p. 8.

2 As in previous years, we take into account both short-term and long-term and private and external public debt, but exclude Special Drawing Rights from the analysis as they do not generate debt at a net level. On Special Drawing Rights and their functioning, see also Kröss, V. (2023): 'IWF-Sonderziehungsrechte und ihre Weiterleitung: Eine kritische Bestandsaufnahme', p. 3: 'Was sind Sonderziehungsrechte'.

3 In response to the North Atlantic financial and economic crisis, investors were keen to lend to countries in the Global South in order to yield higher returns in a context of global low interest rates and weakening economies in the Global North. The World Bank also defines 2010 as the beginning of the current wave of debt. See Kose et al. (2019): 'Global Waves of Debt'.

4 See Kose et al. (2019) and IMF: Policy Paper No. 2019/039.

5 As at 31 December 2022, around 80% of all external debt of countries in the Global South was denominated in US dollars. Most of the remainder is denominated in euro, yen, pounds sterling, renminbi or Special Drawing Rights. For example, at the end of 2022, outstanding claims denominated in euro totalled EUR 295 billion. Expressed in US dollars at the exchange rate on 31 December 2021, this corresponds to USD 334 billion, but only to around USD 315 billion at the exchange rate on 31 December 2022: The depreciation of the euro in the course of 2022 alone resulted in a reduction of around USD 19 billion in the nominal external debt of countries in the Global South.

6 See erlassjahr.de (ed.) (2022): 'Von Gläubigern und Schuldnern', p. 13, 'Was ist das Wechselkursrisiko'.

7 Azerbaijan, Botswana, Brunei Darussalam, Equatorial Guinea, Eswatini, Iraq, Kosovo, Kuwait, Nauru, Oman, Palestinian territories, Peru, Qatar, Saudi Arabia, Somalia, Turkmenistan and Vietnam.

8 We include countries in the analysis if we have data for at least two of the five debt indicators. Cuba, Eritrea, Libya, North Korea and Syria could therefore not be analysed in the Global Sovereign Debt Monitor 2024. However, this year we had data available for Palau, whose debt situation is considered critical.

9 Bahrain, Bhutan, Cabo Verde, Republic of the Congo, Ghana, Guinea-Bissau, Grenada, Laos, Lebanon, Malawi, Mongolia, Mozambique, Pakistan, Panama, Senegal, São Tomé and Príncipe, Sri Lanka, Sudan, Suriname, Uruguay, Venezuela, Yemen, Zambia and Zimbabwe.

10 The majority of the outstanding debt last year was old debt to Western official bilateral creditors and multilateral creditors (especially the World Bank), which Eritrea has not serviced for a long time. Eritrea is the last potential beneficiary country whose external debt could be almost completely cancelled under the HIPC initiative.

11 Angola, Antigua and Barbuda, Argentina, Egypt, El Salvador, Gambia, Jamaica, Jordan, Kenya, Maldives, Montenegro, Rwanda and Seychelles.

12 Own analysis based on data from the IMF's World Economic Outlook (October 2023).

13 See in this context, for example The San Pedro Sun (27/04/2021): 'Teachers officially go on strike' and BNN Breaking (24/11/2023): 'Belize Teachers' Union Warn of Action over Non-payment of Salary Increments'.

14 See IMF (12/05/2023): 'Country Report 23/164'.

15 See in this context, for example Climate Action Network (2023): 'Position on Debt Swaps'. On the criticism of the dilution of the notion of debt conversions, see Kaiser, J (15/05/2023): 'Ecuador – Credit Suisse: Ein Debt for Nature Swap ist etwas anderes'.

16 Unlike the other countries, for Somalia we used data from 2023. The use of the data as at 31 December 2022 would have led us to classify Somalia's debt situation as very critical, which would no longer have been accurate when the Global Sovereign Debt Monitor was published due to the cancellations made in 2023.

17 See FitchRatings (25/09/2023): 'Fitch Upgrades Oman to 'BB+'; Outlook Stable'.

18 While debt service provides particularly good information about the current burden on debtor countries, it is a very volatile indicator compared to stock indicators. Furthermore, of the five indicators we use to assess the general debt situation, we only look at the ratio of total public and private external debt to export revenues. This is an important indicator that can reveal potential balance of payments problems. However, the analysis of public external debt service in relation to government revenue, which is carried out in this section, can provide information on both possible balance of payments and possible budget balance problems.

19 However, we do not want to give the impression that refinancing via the capital market is always an alternative to restrictive fiscal policy, because often investors explicitly stipulate such a restrictive fiscal policy in order to provide financing in the first place. See, for example, Vander Stichele, M. (2021): 'The IIF and debt relief' on the influence of the Institute of International Finance on financial policy.

20 See, for example, Kentikelenis, A; Stubbs, T. (2021): 'Austerity Redux: The Post-pandemic Wave of Budget Cuts and the Future of Global Public Health' and Ortiz, I.; Cummins, M. (2021): 'Global Austerity Alert. Looming Budget Cuts in 2021-25 and Alternative Pathways'.

21 Own analysis based on data from the IMF's World Economic Outlook from October 2023.

22 See, for example, Ortiz, I.; Cummins, M. (2022): 'End Austerity. A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25', p. 16 ff.

23 See Martin, M. (2023): 'The Worst ever Global Debt Crisis' and Development Finance International (2023): 'The worst ever global debt crisis: putting climate adaptation spending out of reach'. In contrast to our analysis in this Global Sovereign Debt Monitor, not only external interest and principal payments are taken into account, but also domestic payment obligations to creditors.

24 See, for example, (2023): 'G7-Hiroshima Leader's Communique', marginal no. 10.

Box: Methodology – 'The global debt situation'

The Global Sovereign Debt Monitor analyses **two debt dimensions**:

→ the **debt situation**, i.e. the level of debt indicators as at the reporting date, 31 December 2022, and
→ the **trend**, i.e. the change in this debt situation over a period of three years (2019-2022).

The debt indicators used for the analysis are:

$\frac{\text{Public debt}}{\text{Annual gross domestic product (GDP)}}$	**Is the government more indebted, in terms of both domestic and external debt, than the capacity of the entire economy allows?** Public debt includes the explicit and implicit liabilities of the public sector – from central government to public enterprises. However, public debt also includes the debt of private companies for which the state has issued a guarantee.
$\frac{\text{Public debt}}{\text{Annual government revenues}}$	**Is the state so heavily indebted, in terms of both domestic and external debt, that its revenues can no longer guarantee ongoing debt service?**
$\frac{\text{External debt}}{\text{Annual gross domestic product or gross national income}}$	**Does the entire economy have more payment obligations to foreign countries than its capacity allows?** External debt includes the liabilities of both the public and private sector of a country to foreign creditors. This indicator points to the overall economic burden, i.e. whether an economy produces enough goods and services to be able to service its debt.
$\frac{\text{External debt}}{\text{Annual export earnings}}$	**Is the external debt of the state, companies and individuals so high that exports cannot generate enough foreign currency to pay the debt?** In most cases, external debt cannot be repaid in local currency. Servicing the debt requires the generation of foreign exchange through exports, migrant remittances, foreign investment or new debt.
$\frac{\text{External debt service}}{\text{Annual export earnings}}$	**Is the current external debt service of the state, companies and individuals so high that exports cannot at present generate enough foreign exchange to repay interest and principal in the current year?** This indicator sets annual payments for principal and interest in relation to export earnings. It shows whether the annual debt service – irrespective of the total debt level – overstretches the current capacity of an economy in a given year.

There are three risk levels for each of the five indicators. The allocation of different colour shades to the respective values indicates the value classification *(see Table 1 on pp. 54-56)*. A value shaded red means that all three debt distress thresholds are exceeded, and the value is thus classified in the third and highest risk level. Values below the lowest limit are shaded grey.

Levels of risk of debt distress (in %)

	No risk of debt distress	**First level**	**Second level**	**Highest level**
Public debt / Annual GDP	< 50	50-75	> 75-100	> 100
Public debt / Annual government revenues	< 200	200-300	> 300-400	> 400
External debt / Annual GNI or GDP	< 40	40-60	> 60-80	> 80
External debt / Annual export earnings	< 150	150-225	> 225-300	> 300
External debt Service / Annual export earnings	< 15	15-22.5	> 22.5-30	> 30

Based on the relevant debt indicators, the **debt situation of a country** is ranked according to one of four categories: non-critical, slightly critical, critical or very critical *(see world map on p. 3)*. Table 1 *(on pp. 54-56)* lists all countries with at least one debt indicator exceeding at least the lower of the three thresholds *(see levels of risk of debt distress)* or for which the International Monetary Fund (IMF) currently attests at least a moderate risk of debt distress. Based on the four risk levels for each of the five debt indicators, a value of between 0 and 15 is yielded for each country. For example, if a country is in the highest risk category with all five debt indicators based on the above levels of debt distress risk, i.e. if it exceeds all three thresholds for all five debt indicators, it has a value of 15. The categories are defined as follows:

- 0 → non-critical
- 1-4 → slightly critical
- 5-9 → critical
- 10-15 → very critical

By way of additional factor, the IMF's assessment of debt distress risk also forms part of the assessment.

For each individual debt indicator, the **trend** indicates whether there was a change of 10 per cent or more in the three years from 2019 to 2022 *(see Table 1)*. An aggregate debt trend has also been calculated for each country *(see world map)*. If more debt indicators have improved than deteriorated over a three-year period, the overall trend is shown as a fall. If more indicators have worsened than improved, the general debt level is said to have increased.

Creditors worldwide

An analysis of the creditor landscape, current restructuring negotiations and political responsibility for debt cancellation

By Malina Stutz

The COVID-19 pandemic led to the introduction of new debt restructuring procedures. However, these measures are still insufficient for quickly and effectively resolving debt crises. Even with the increasingly complex landscape of creditors, the G7 and EU states have the regulatory and political capabilities to facilitate comprehensive restructurings of most outstanding claims. And they bear political responsibility for leveraging these means.

Compared to previous debt crises, the creditor landscape is much more complex today. Both private actors and new official bilateral and multilateral creditors play a far greater role today than, for example, in the debt crisis of the 1980s and 1990s. Given the complex creditor landscape, the question arises as to which institutions could enable a comprehensive cancellation of outstanding claims. For a better overview of the challenging situation, this article will first shed some light on the composition of the creditors in **Section 1**. It will then analyse the participation of the different creditor groups in current debt restructuring processes in **Section 2**, and finally investigate the question as to who is politically responsible for securing the participation of the different creditors in comprehensive debt restructurings in **Section 3**.

Composition of the creditors

Private creditors

At an aggregated level, private creditors are by far the most important creditor group for countries in the Global South:[1] in late 2022, investment funds and banks, insurance companies and other private creditors, like commodity traders, together held around 60% of the claims against sovereign debtors in countries of the Global South. The biggest share of these are bond claims amounting to 45%, followed by another 14% in the form of bank loans *(see Figure 1a)*.

At an aggregated level, private creditors are by far the most important creditor group.

However, if we look at the number of countries rather than the total volume of claims, a slightly different picture emerges: Private creditors only constitute the most important group of creditors in 29 countries, that is around 23% of countries for which data are available *(see additional Table 2, online)*. This is due to the fact that private lending focuses mainly on middle-income countries *(see Figures 1b-1d in comparison)*.

The countries in which private creditors are the most important creditor group include the **Republic of Congo**, **Ghana**, **Lebanon**, **Sri Lanka** and **Zambia**, all of which are very critically indebted according to our analysis. In the three very critically indebted states of **Guinea-Bissau**, **Senegal** and **Suriname**, private creditors hold over 30% of outstanding claims and in seven further very critically indebted states, they hold a share of more than 10% of claims *(see Figure 5)*. In order to resolve the external debt crisis in all of these countries, the participation of private creditors in debt cancellations that are comprehensive enough, is paramount.

Multilateral creditors

Multilateral financial institutions such as the International Monetary Fund (IMF), the World Bank as well as other multilateral development banks and funds are, at an aggregated level, the second most important creditor group and hold about 28% of claims against all countries of the Global South *(see Figure 1a)*. In this context, the lower the income level of the debtor nation, the more important are multilateral claims *(see Figures 1b-1d in comparison)*.

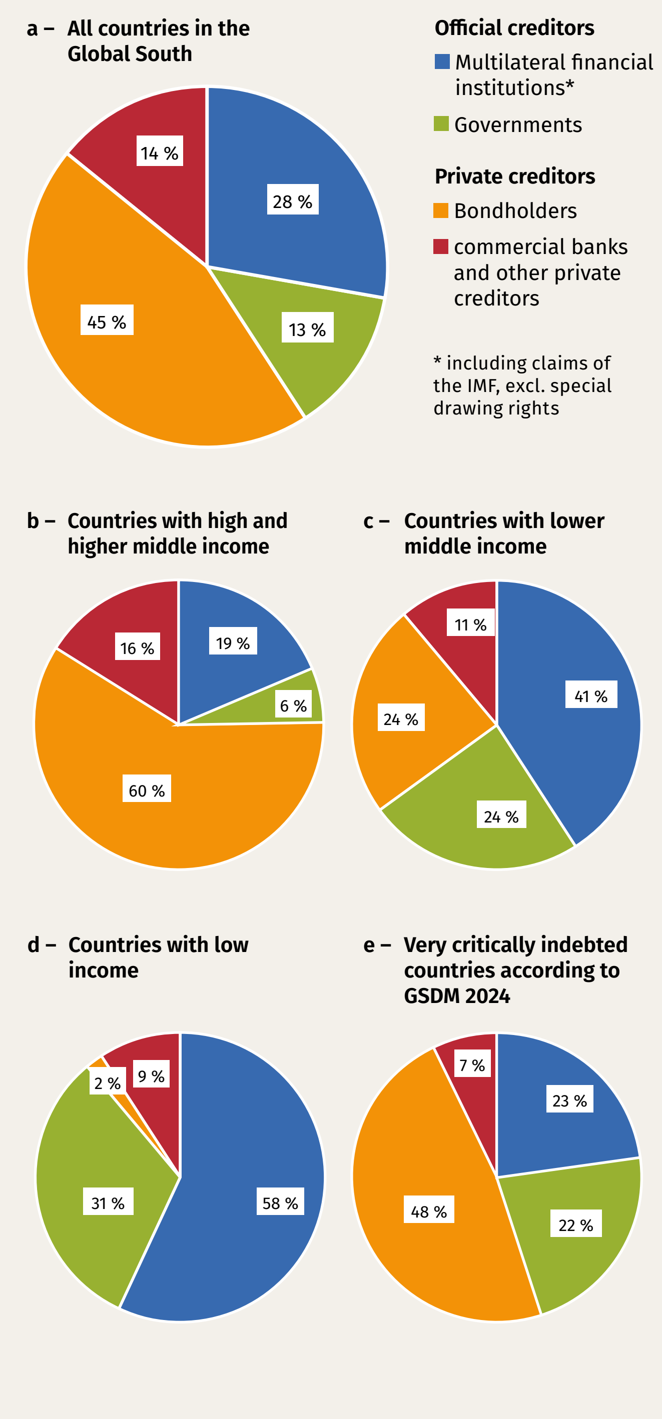
Overall, multilateral creditors are the most important group of creditors in 72 countries, meaning roughly 58% of countries for which data are available *(see additional Table 2, online)*. According to our analysis, they include eight very critically indebted states *(see Figure 5)*. In 55 countries, multilateral creditors even hold more than half of the outstanding claims, including the very critically indebted states of **Cabo Verde**, **Grenada**, **Guinea-Bissau** and **Malawi** *(see Figure 5)*.

Official bilateral creditors

Claims held by official bilateral creditors like **China**, **Germany** or **Japan** play a subordinate role at the aggregated level *(see Figure 1a, 'governments')*. Still, they constitute the most important creditor group in 23 countries. Among these countries are seven states we consider very critically indebted *(see Figure 5)*.

Since 2016, **China** has been the most important official bilateral creditor, holding claims of almost

Fig. 1: Different creditor groups' share in public external debt 2022



Source: Own illustration based on data from the World Bank's International Debt Statistics (2023) and IMF country reports.

GSDM 2024 = Global Sovereign Debt Monitor 2024

USD 150 billion as at 31 December 2022, according to the World Bank *(see Figure 2)*. This is a slight reduction of around USD 1 billion compared to the previous year. **Japan**, the second most important official bilateral creditor, closely trails China, while **France**, in third place, has a significantly lower volume. According to World Bank data, **Germany** is the fourth most important official bilateral creditor, holding claims amounting to about USD 30 billion in total, just as in the previous year.[2] Germany is closely followed by **Russia**, whose volume of loans issued to countries of the Global South has increased again over the past years.[3]

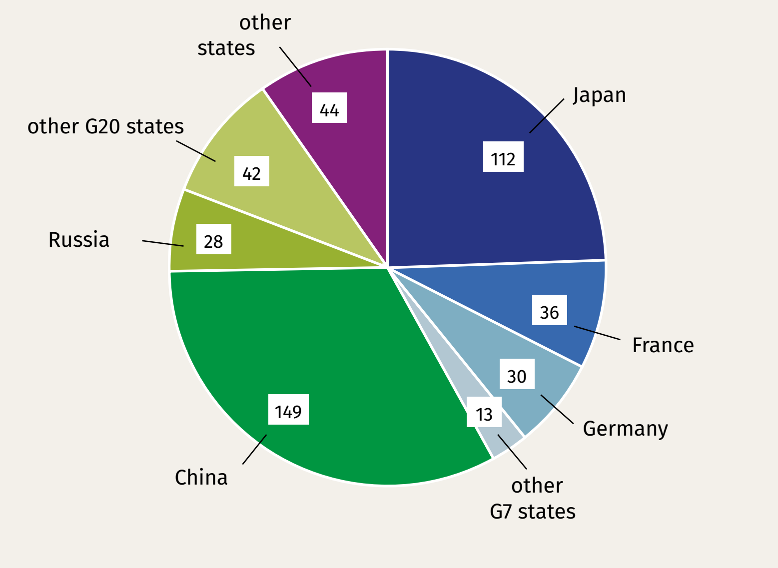
According to the World Bank, **Germany** is the most important official bilateral creditor in six countries, including Tunisia, which is critically indebted, the three slightly critically indebted states of Albania, Armenia and Morocco, as well as Peru and Kosovo, whose debt situation we classify as non-critical *(see additional Table 2, online)*. When compared with the total debt of these countries, the share of German claims is relatively low with 1% to 8%. Nevertheless, the German Federal Government could play a crucial role should debt restructuring negotiations with these nations be tabled, as by tradition, the most important official bilateral creditor co-chairs debt restructuring negotiations in the Paris Club and under the G20 Common Framework.[4]

Germany is the fourth most important official bilateral creditor worldwide.

China and **Japan** would take on this role in even more countries:[5] Japan is the most important official bilateral creditor in 22 countries and China in 56 countries, including 12 very critically indebted countries *(see additional Table 2, online)*.

Closer examination reveals that especially in many countries in Sub-Saharan Africa, the former colonial powers continue to be the most important official bilateral creditors and that, at the same time, the financial obligations between formerly colonised nations of one and the same colonial power are particularly high. For example, **France** is the most important official bilateral creditor of **Burkina Faso** and **Mauritius**, **Portugal** of **Cabo Verde**[6] and **Angola** of **Guinea-Bissau** and **São Tomé and Príncipe** *(see additional Table 2, online)*.

Fig. 2: Claims of official bilateral creditors against low- and middle-income countries in 2022 (in USD billion)



Source: Own llustration based on data from the World Bank's International Debt Statistics (2023).

Privatising profits, socialising costs

While private actors with their substantial lending in the 2010s were the main drivers of today's high debt levels, they are now, amidst multiple crises, withdrawing from refinancing. The main reasons are a higher perception of risks due to increased debt levels, the global economic upheavals following the COVID-19 pandemic and the war in Ukraine, and notably the rise in interest rates as a result of the global interest rate turnaround initiated by the USA.

In 2022, countries in the Global South for the first time had to service more principal at the aggregated level than private creditors made available to them in the form of new lending:[7] around USD 44 billion of net principal payments and USD 89 billion of interest payments were made to private creditors in 2022. According to preliminary data, this trend continued to worsen in 2023. Although there was a slight decrease of interest rates at the beginning of 2024, experts expect that many countries of the Global South will still have no access to capital market loans or have to pay double-digit interest rates in 2024.[8]

In 2022, around USD 44 billion of net principal payments and USD 89 billion of interest payments were made to private creditors.

The procyclical nature of private lending has dire consequences for the debtor nations: when refinancing is no longer possible or only on terms which are much less advantageous, the necessary financial means for debt service must be raised through spending cuts in other areas. This, however, is particularly difficult in times of economic crises, as the population heavily depends on public services and support measures and further cuts will often aggravate and prolong an economic downturn.[9]

The exit of private lenders also causes low- and middle-income countries to once again turn to multilateral lenders.[10] Hence, the share held by multilateral creditors in the total outstanding debt of low- and middle-income countries has risen significantly over the past years *(see Table 1)*.

This "multilateralisation of debt" not only renders future debt restructuring processes more difficult, as multilateral claims are generally considered to be preferential *(see the analysis in this article titled 'Debt restructuring with multilateral creditors')*, but also poses the risk of privatising profits while socialising the costs of the crisis. Disbursements of multilateral finance often guarantee repayments to private creditors who can thus derive high profits even in times of crisis.

Once again, the procyclical nature of private lending has dire consequences.

At the same time, the population in the debtor nations of the Global South already bears the social and economic costs of the adjustment measures which are required in order to qualify for multilateral lending (socialisation of costs) *(see also 'Austerity, dispossession and injustice', p. 44 onwards)*. If the crisis should turn out to be unsolvable without extensive debt cancellations (including of multilateral claims) as was the case in the past, a further socialisation of the costs is risked:[11] this time at the expense of the taxpayers in countries of the Global North who have to finance the write-offs of multilateral creditors after private creditors have largely been repaid and a fair burden sharing is thus not possible any more.

The population in the debtor nations of the Global South bears the costs.

Tab. 1: Share of multilateral claims in total public external debt

	2019	2020	2021	2022
low income countries	53 %	58 %	60 %	62 %
lower middle-income countries	37 %	41 %	41 %	43 %
higher middle-income countries	18 %	18 %	18 %	20 %

Source: Own illustration based on data from the World Bank's International Debt Statistics (2023).

Debt restructuring with different creditor groups

After the COVID-19 pandemic, the G20 nations and international financial institutions like the IMF introduced new debt restructuring procedures. In 2023, the first cases were either completed or considerable progress towards an agreement had been made. The cases to date reveal that even with the newly created institutions it is not possible to ensure timely and sufficiently extensive debt restructuring. As a result, the costs of the crisis are passed on to the debtor nation's population.

Debt restructuring with official bilateral creditors

By creating the G20 Common Framework in November 2020, the G20 nations endeavoured to establish a mechanism whose framework is used for the most important official bilateral creditors to jointly negotiate debt restructuring processes of critically indebted countries. According to the German Federal Ministry of Finance, the declared aim is to effectively and sustainably 'coordinate and implement (...) debt restructuring plans (...) that can also include debt cancellation.'[12] The difference from already existing institutions like the Paris Club is primarily that the Common Framework brings Western states together with the new mega creditor China.[13] Under the Common Framework, negotiations are case-by-case. Hence, on the part of the G20 there is no binding self-commitment as to when and to what extent cancellations are granted. For this reason alone, the new framework was criticised by civil society actors, including erlassjahr.de and Misereor, for mainly strengthening the collective bargaining power of the creditors vis-à-vis the debtor nation, without really contributing to a fair international debt architecture.[14]

Despite the case-by-case principle, negotiations under the Common Framework are only accessible to a selected group of countries.[15] As a prerequisite for the final granting of debt restructuring, official bilateral creditors of the Common Framework demand that debtor nations negotiate comparable debt relief with their private creditors, without giving them the legal means to enforce such a comparable treatment.[16]

To date, four countries (**Chad**, **Ethiopia**, **Zambia** and **Ghana**) have applied for negotiations under the Common Framework. A creditor committee was convened in all four cases and after delays, some of them long, initial agreements have either been concluded or are under way.

In **Chad**, the creditors concluded after 18 months of negotiations that no debt needs to be cancelled or otherwise restructured for the benefit of Chad – because the oil prices and thus the country's income had significantly increased during the negotiations.[17]

In Chad, the creditors concluded that no debt needs to be cancelled.

In **Ethiopia**, the start of the negotiations was considerably delayed, due in part to the civil war. In 2023, at least a temporary suspension of payments until the end of 2024 was agreed; however, not a single cent was cancelled.[18]

In **Zambia**, an agreement with the creditor committee was reached in June 2023 – almost two-and-a-half years after the country had applied for negotiations.[19] Although the agreement is not publicly available, it is known that payment obligations to official creditors are to be considerably reduced for the 2020s, with Zambia obliged to comply with strict austerity requirements at the same time.[20] However, no real relief (haircuts) was granted but rather only extensions of payments.[21] As the details of the agreement have not been made public, it cannot be assessed how far-reaching the actual relief effect of these extensions is. Nevertheless, there is a risk that the crisis has not been sustainably resolved but only postponed and that Zambia will be kept in dependency for the long term. Moreover, the official creditors have gilded their own debt restructuring: should the IMF find that Zambia can shoulder more debt than initially assumed, the creditors would receive higher amounts of repayments at shorter intervals. Ultimately, the agreement is not finalised, as private creditors have not yet agreed to comparable debt restructuring (see below).

Zambia was not granted any real relief, only extensions of payments.

In **Ghana**, a provisional agreement with the official creditors, one of them Germany, was reached in January 2024. Here, as well, the agreement is not finalised and no further details are known.[22]

Countries like **Suriname** and **Sri Lanka** are not entitled to negotiations under the Common Framework, which is why they are involved in negotiations outside the framework in the past years. **Suriname** negotiated separately with the Paris Club and its remaining official bilateral creditors, namely China and the Export-Import Bank of India. **Sri Lanka**, on the other hand, proactively tried to induce Western Paris Club creditor states and other official bilateral creditors to sit down at the bargaining table together, in other words, to create a format similar to the Common Framework. India, Hungary and the Paris Club states agreed to this proposal and convened a joint creditor committee. China refused to become a member of the committee and only joined in as a guest. However, China surprised the remaining creditor states in October 2023 by concluding an agreement with Sri Lanka even before the creditor committee.[23]

In the cases of both Sri Lanka and Suriname, the official bilateral creditors and the IMF have declared that the agreements of the different creditor groups are comparable. Yet the public has no way to verify this. It is by no means only China and other new official bilateral creditors who lack transparency; the Paris Club, that is the official creditor committees inside and outside the Common Framework, also refuse to make the results of their negotiations public. For instance, the public has no means to ascertain the terms the official creditor committee, including the German Federal Government, has agreed with Sri Lanka. But even before the end of the negotiations it is clear that the agreed debt restructuring will not be enough to retrieve debt sustainability,[24] one reason for this being, from what is known, that creditors belonging to the official creditor committee push for as little debt relief as possible. Once again, this goes to show that coordination among the creditors alone by no means guarantees a sufficient solution for debtor nations.

Even before negotiations are concluded, it becomes clear that, ultimately, it does not make a difference whether they have been conducted under the new framework or outside of it. In the case of Common Framework-beneficiary countries, China is involved in the common negotiations, while states outside the Common Framework have to negotiate separately with China and the other, mainly Western creditor states. In both cases, however, negotiations are protracted and debt cancellations are insufficient and lack transparency as to the process and its results.

Ultimately, it does not make a difference whether negotiations have been conducted under the new framework or outside of it.

Debt restructuring with private creditors

Over the past three years, involving private creditors in debt restructuring was tested in particular in **Suriname**, **Sri Lanka** and **Zambia** – with a somewhat sobering result. In Suriname, the private creditors succeeded in bringing down concessions considerably below the level initially calculated by the IMF as being necessary. For these “concessions” they are likely to be more than compensated by future oil revenues *(see Box 1)*.

The negotiations with **Sri Lanka** and **Zambia** were not yet finalised by the time this article went to press. However, a similar development is emerging as in Suriname. Here, as well, private creditors count on being compensated with an instrument that will allow them to profit from a future economic upswing in the countries in exchange for possible debt restructuring.[25] While it thus seems to be a new pattern that creditors profit when the development of the debtor nation’s economic situation turns out to be better than expected at the time of negotiations, the reverse does not apply in favour of debtor nations: it has not been agreed that payment obligations are automatically reduced when the economy develops more sluggishly than predicted. This latter scenario, though, is actually much more likely, as overly optimistic forecasts for the economic development were systematically made as part of past debt restructuring processes.[26]

In Suriname, private creditors are likely to be more than compensated for their 'concessions' through future oil revenues.

In the cases of Sri Lanka and Zambia, as well, private creditors are endeavouring to bring down concessions below the necessary level calculated by the IMF.[27] Critiques say, however, that the need for relief as calculated by the IMF is already insufficient and that the debtor nations' population will have to bear the costs of the crisis *(see 'Austerity, dispossession and injustice', p. 44 onwards)*. Yet it is questionable whether, in the cases of Sri Lanka and Zambia, private creditors can be similarly suc-

Box 1: How private creditors profit from Suriname's debt crisis

In the face of its external debt burden and in the context of the economic crisis following the COVID-19 pandemic, **Suriname** had to suspend its payments to external creditors in late 2020. In its debt sustainability analysis dated December 2021, the IMF calculated that private creditors would have to accept a haircut (i.e. a cancellation of nominal claims) of 40% in order to reach a sustainable debt level and assumed that an agreement could be reached by no later than the end of 2022.[28]

In reality, however, the Surinamese government was not able to conclude a deal with the private creditors until November 2023.[29] The main reason for the protracted negotiations was that the investors – contrary to the IMF – first wanted to price in the economic perspectives of the potential extraction of oil and gas before agreeing to a restructuring of the debt.

On paper, private creditors ultimately agreed to a haircut of 25%, i.e. a much lower percentage than the 40% originally deemed necessary by the IMF. In actual fact, the investors have cancelled only 1.2% of their original nominal claims.[30] There are two reasons for this: firstly, because the negotiations lasted for over three years, high penalty interest rates of almost 13% were applied to the suspended payments, which were capitalised and absorb a major part of the cancellations. Secondly, Suriname had to pay USD 10 million in fees for the restructuring of its debt.

The private creditors refused to extend loan periods or lower interest rates for the restructuring to compensate for the low level of cancellation of nominal claims: Even when considering the present value, which accounts for changes in interest rates and loan periods, they do not offer the level of debt relief originally deemed necessary by the IMF.[31] Despite this, the IMF approved the agreement and declared Suriname's debt situation to be sustainable – without transparently clarifying how this conclusion was reached.[32]

If Suriname services the claims until 2033 as agreed in the restructuring negotiations, private creditors will receive an average annual interest rate of 7.1% on their loans granted in 2016 despite the restructuring and the temporary suspension of payments and will thus make considerable profit amidst the country's economic crisis.[33]

In the end, private creditors even succeeded in including a clause in the debt restructuring agreement which will make sure that they are more than compensated for their "concessions" should oil and gas be extracted in the future: while private creditors cancelled around USD 262 million of their original claims and capitalised interest, they can receive up to USD 787 million in compensation from future oil revenues.[34] Moreover, the restructuring deal stipulates that the compensation payments increase automatically unless the Surinamese government passes a legislative amendment on the sovereign wealth fund by the end of 2024.[35] It is not publicly known what this legislative amendment is to comprise. It is assumed, however, that it could be associated with the establishment of a foreign escrow account onto which oil revenues are transferred and to which investors have access under certain conditions.[36]

cessful with their attempt as in the case of Suriname, as China in particular insists on comparable participation of private creditors in these countries.[37]

Furthermore, in the ongoing negotiations, official bilateral creditors are now using clauses in the current negotiations that prevent debtor nations from treating other, uncooperative (private) creditors more favourably at a later point in time (so-called "clawback clauses"). While with these, official creditors are now exerting more pressure on debtor nations to negotiate comparable concessions with private actors, they still are not using their political, legal and financial capacities to actually ensure comparable participation of private creditors or to exert pressure directly on private creditors themselves and not only on and through the debtor countries.[38]

It is important to highlight that such agreements with minimal relief on the one hand and lavish compensations for private creditors on the other are concluded because the large majority of creditors demand them. In the case of Suriname, the inadequate deal was concluded under pressure from the private creditors' committee, whose members held around 75 percent of the outstanding bonds.[39] Thus, contrary to how the situation is often depicted in the public debate, it is not only individual, particularly uncooperative creditors who hinder sustainable debt restructuring.

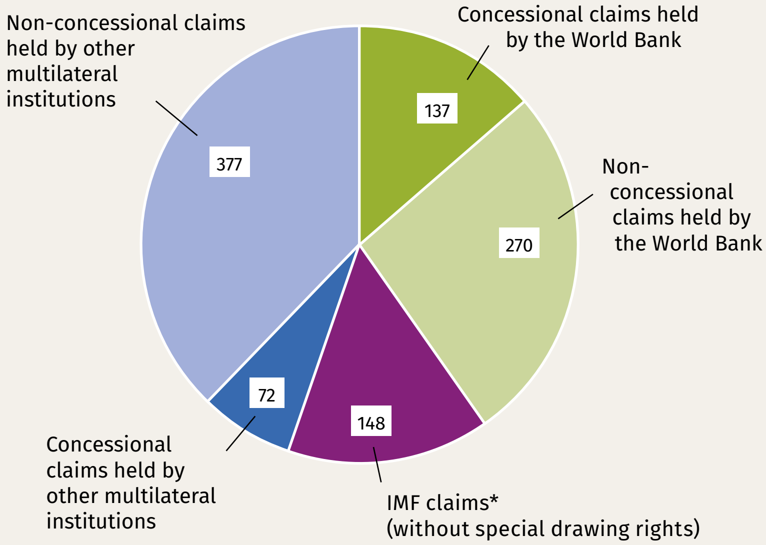
In the case of **Sri Lanka**, however, a settlement could be further hampered by the actions of a single, particularly uncooperative minority creditor: from the start, the Hamilton Reserve Bank refused to participate in debt restructuring negotiations and instead tried to enforce the full repayment of their claims by taking legal action.[40] No decision has been taken as of yet and the pending litigation could both impede the completion of the debt restructuring process with most creditors and affect Sri Lanka's economic recovery afterwards.[41]

Debt restructuring with multilateral creditors

In debt restructuring negotiations Western countries in particular insist on excluding multilateral claims from restructuring. They often argue that these have particularly favourable financial terms. Yet, only about one fourth of claims held by multilateral development banks and funds, as documented in World Bank statistics, are granted on concessional terms *(see Figure 3)*. Even in the case of the World Bank, which grants particularly favourable loans via the International Development Association (IDA), just one third of awarded loans can be categorised as concessional claims. Moreover, a loan's concessionality can be taken into account when calculating the comparable contribution to debt relief, meaning that multilateral creditors who have granted loans on concessional terms need to cancel fewer of their claims nominally than commercial creditors.[42]

Western countries insist on excluding multilateral claims from restructuring.

Fig. 3: Claims of multilateral creditors on low- and middle-income countries in 2022 (in USD billion)



* The information on IMF claims also does not include an additional fee (so-called surcharges) that crisis countries that make "excessive" use of IMF financing have to pay to the IMF. Surcharges are not explicitly included in the International Debt Statistics or in IMF data sources.

Source: Own illustration based on data from the World Bank's International Debt Statistics (2023).

Proponents of the preferential treatment of multilateral claims argue that not all 53 institutions listed as multilateral creditors in the World Bank statistics would benefit by this. Rather, only creditors defined as multilateral institutions by the IMF should receive preferential treatment.

In fact, clear criteria as to which institution should be thus privileged were lacking for a long time. Instead, the IMF used questionable criteria to decide on a case-by-case basis. This meant that the Paris Club member states could effectively decide on a case-by-case basis whether an institution should receive preferential treatment or not.[43]

The IMF issued a new definition in May 2022, also because of **Malawi** *(see Box 2)*.[44] However, this continues to favour Western states, especially the USA: for example, an institution can receive preferential treatment when it can prove a 'global membership'. The latter is the case when either more than 50% of IMF members are part of the institution or the institution's member states hold more than 50% of voting rights in the IMF. Within the IMF, however, voting rights are distributed very unequally among the member states: the USA alone holds 16.5% and together, the G7 and EU states command more than 50%, while all sub-Saharan African countries combined hold only about 5%. Moreover, the IMF's definition provides that even when the remaining criteria are not met, official bilateral creditors belonging to a 'representative standing forum' can decide that the financial institution does not need to participate in the restructuring. This is likely to mean the Paris Club in particular.

These definition criteria in favour of Western states create tensions with new official bilateral and multilateral creditors. In recent years, China in particular has time and again demanded comparable participation of multilateral creditors. Hence, the insistence on the preferred status of multilateral creditors complicates debt restructuring negotiations and brings discredit on Western states' attempts to enlist support for a jointly coordinated solution of the debt crisis and a multilateral system.

The insistence on the preferred status of multilateral creditors complicates debt restructuring negotiations.

These self-referential definition criteria are an ideal point of attack, for instance for Ghana's Finance Minister Ofori-Atta. Amidst a controversy as to how to treat the Afreximbank in the case of **Ghana** *(see Box 2)*, he advocated for a preferred treatment of the bank in June 2023. On a rather critical note, however, he said he expected the IMF and the World Bank to oppose this suggestion as 'being a multilateral institution was equated with being based in Washington'[45]. In July 2022, the Afreximbank provided new loans to Ghana as the country was locked out of the global capital markets and its credit ratings were downgraded. Hence, in this regard, the bank assumed the role of a multilateral lender of last resort, albeit with interest rates exceeding 9% in some cases.[46] Such conflicts would be avoidable, if researchers' proposals were adhered to and a uniform method was used to take interest rate levels into account when determining burden-sharing, rather than categorically excluding creditor groups.[47]

Box 2: Dispute about preferred status of multilateral creditors impedes debt restructuring

In the framework of **Malawi**'s debt restructuring process, the African Export-Import Bank (Afreximbank) and the Trade and Development Bank are to grant the lion's share of the debt relief calculated by the IMF. Both institution's lending was on market terms. Therefore they were classified as commercial and not as preferred multilateral creditors by the IMF.[48] In June 2023, the Afreximbank declared that it intended to participate in a restructuring of the claims.[49] Shortly after the Afreximbank announced its participation in the debt restructuring of Malawi, the bank insisted on being a multilateral creditor in the case Ghana and thus on being entitled to preferential treatment – including by referring to its statutes that would not allow for debt restructuring.

The political responsibility to enable debt cancellations

The previous section demonstrates that in current debt restructuring negotiations, it still appears challenging to effectively include all creditors in debt cancellations. If one were to ask who is responsible for ensuring timely and comprehensive levels of debt relief in a debt crisis, the answer would be that the creditor who holds a corresponding claim against the country bears primary responsibility. In the case of bilateral official claims, it is the respective national governments and/or parliaments, depending on the political system.

However, where claims exist with multilateral and private creditors, it is not enough to analyze who holds the claims in order to conclusively answer the question of political responsibility for ensuring sustainable and comprehensive debt relief. This is due to the fact that it is the member states who ultimately determine, and hold responsibility for, the policies of multilateral institutions. Moreover, in terms of private creditors, it is the countries in which they are based, or according to whose laws bond claims were issued, that have the regulatory capacities to ensure the equal participation of private creditors in cases of debt relief negotiations. These countries thus bear political responsibility for fully leveraging such capacities.

To analyse the political responsibility of individual states and groups of states, we assigned outstanding claims as described in Box 3. The analysis shows that around 70% of claims against countries of the Global South are the direct or indirect responsibility of G7 or EU member states *(see Figure 4a)*.

This large share can be explained by two factors: firstly, as the most important shareholders of the largest multilateral creditors, these states are responsible for most outstanding multilateral claims.[50] Secondly, the G7 and EU states are primarily responsible for ensuring the participation of private creditors in debt relief. In this context, the greatest share of bond claims is the 97% that was issued according to British or US law, and whose restructuring is therefore assigned to the political responsibility of the G7 states.

In order to resolve the current stalemate resulting from the discrepancies in the treatment of multilateral claims (see above), the German Federal Government should advocate to make it a general rule to include multilateral claims in debt restructuring. As the fourth largest shareholder of the World Bank, the world's largest multilateral financial institution, it could initiate a structural process that would enable the cancellation of multilateral claims, similar to the HIPC initiative of the mid-1990s. To ensure private creditors' participation in comprehensive debt cancellations, the German Federal Government should pass a national law hindering private creditors to undermine multilateral agreements by filing legal action.[51]

As the fourth largest shareholder of the World Bank, Germany could initiate a structural process.

If we look at the countries whose debt situation we classify as very critical in this Global Sovereign Debt Monitor, the proportion of claims whose restructuring is the responsibility of China and other

Box 3: Political responsibility

- The respective creditor country is 100% responsible for **bilateral official claims.**
- **Multilateral claims** will be assigned to the member states of each of the multilateral institutions according to their respective voting rights.
- The country where a private creditor is located will be assigned responsibility for overseeing the restructuring and cancellation of **claims from private banks and other private creditors.**[52]
- The responsibility for ensuring the restructuring and cancellation of **bond claims** is assigned to the country according to whose laws the bonds were issued.[53]

G20 nations is considerably higher at 21% or 10% respectively *(see Figure 4b)*.[54] This is due to the fact that among the group of very critically indebted states there are a number of countries in which the official bilateral claims of China (**Republic of the Congo**, **Laos** and **Zimbabwe**) or other G20 nations are particularly high (Indian claims in **Bhutan**, Saudi Arabian claims in **Yemen**).

Moreover, the general picture of very critically indebted states is particularly influenced by **Pakistan**: firstly, the percentage of outstanding claims for which China has political responsibility, is – at 29% – high in Pakistan as compared to other very critically indebted countries (17% on average) *(see Figure 5)*. Secondly, Pakistan's external debt amounts to about one third of the total external debt of the very critically indebted countries. Hence, the high percentage assigned to the political responsibility of China starkly influences the overall picture for all very critically indebted countries.

Despite the greater political responsibility of China and other G20 nations, G7 and EU states are still – directly or indirectly – responsible for ensuring the restructuring and sufficient cancellation of 50% of outstanding claims of the very critically indebted states *(see Figure 4b)*. The responsibility of G7 and EU states is particularly high in the seven very critically indebted states of Cabo Verde, Ghana, Lebanon, Sri Lanka, Mongolia, Senegal and Suriname. In these seven countries, more than 50% of outstanding claims are the political responsibility of the G7 and EU states *(see Figure 5)*.

Conclusion

The analysis shows that existing mechanisms such as negotiations in the Paris Club or under the G20 Common Framework as well as corresponding clauses in bond contracts are not capable of meeting the current challenges: debt restructurings take too long and are non-transparent in terms of both their process and their results. Even – or maybe

Fig. 4a: Outstanding claims by (directly or indirectly) politically responsible state groups

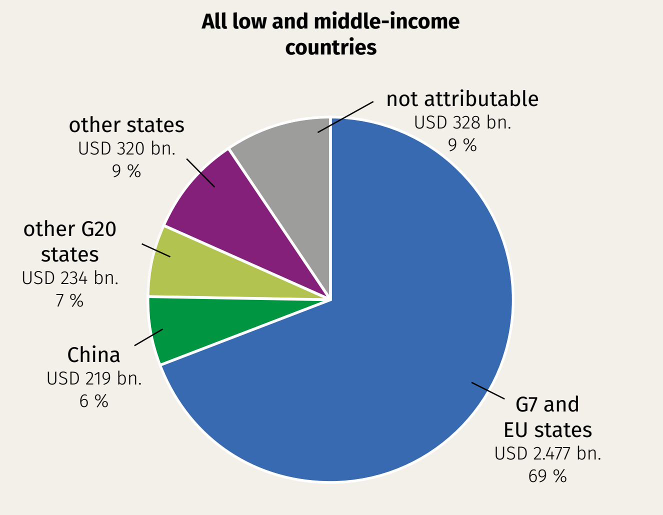
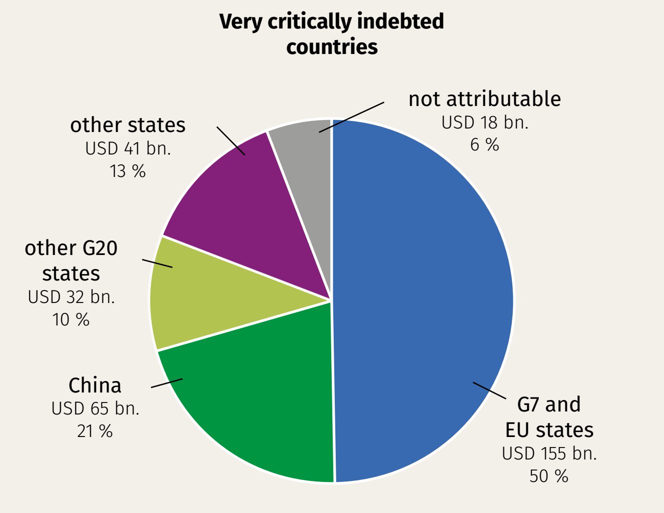


Fig. 4b: Outstanding claims by (directly or indirectly) politically responsible state groups



Note: See Box 3 on p. 29 on assigning political responsibility for outstanding claims to individual (groups of) states.
Source: Own llustration based on data from the World Bank's International Debt Statistics (2023).

especially – when creditors are well coordinated among themselves, they succeed in bringing debt relief down to a minimum.

To meet payment obligations in the face of insufficient debt relief, for example, debtor nations are cutting down on domestic spending, privatising public institutions and expanding fossil fuel extraction to generate hard currency. The costs of the crisis are thus passed on to the population and future generations. As seen in the past, private creditors exit debtor countries, meaning that they can only be made to contribute to the costs of the crisis to a limited amount in the case of future debt restructurings.

At the same time, it becomes clear that the G7 and EU states, despite an ever more complex creditor landscape, still have the regulatory and political means to enable a comprehensive cancellation of most outstanding claims. They are therefore also politically responsible for leveraging these means in the interest of a sustainable solution to the debt crisis.

Germany's political weight is immense in both the G7 and the major multilateral institutions. The German Federal Government should advocate to overcome the general exemption of all multilateral claims from debt restructuring negotiations, and to draw up binding regulations for the participation of private creditors in sufficiently comprehensive debt relief. Unilaterally, as well, the German Federal Government should take steps in this direction and, for example, pass a German safe-harbour law during the still ongoing legislative period.

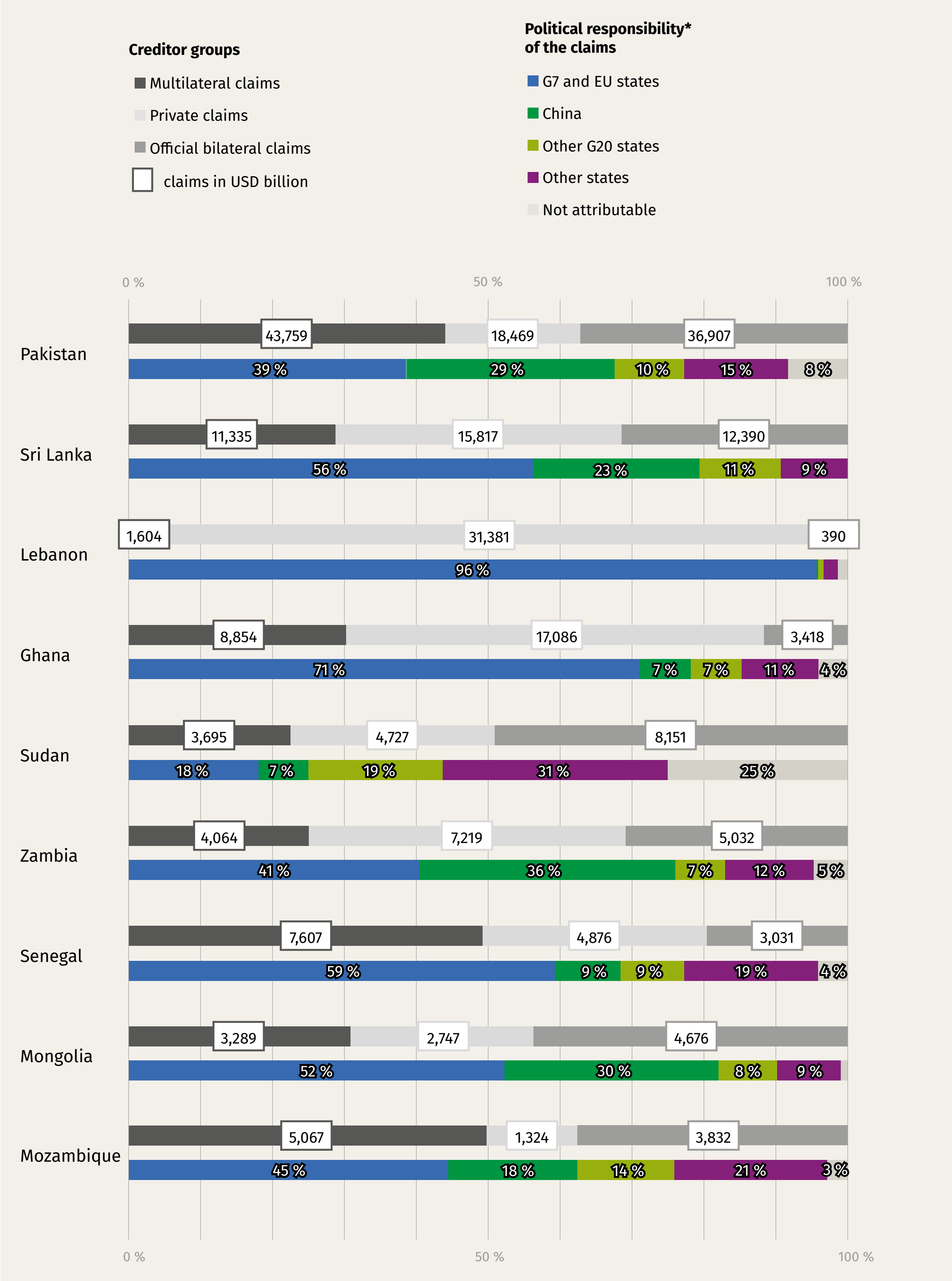
Passing a safe-harbour law before the end of this legislative period would be an important political signal.

Box 4: Explanations on Table 2 (additional online material)

Table 2: 'Creditors and politically responsible groups of states for outstanding claims against countries of the Global South' (available here: www.erlassjahr.de/gsdm-2024) provides the following information, and more, by country:

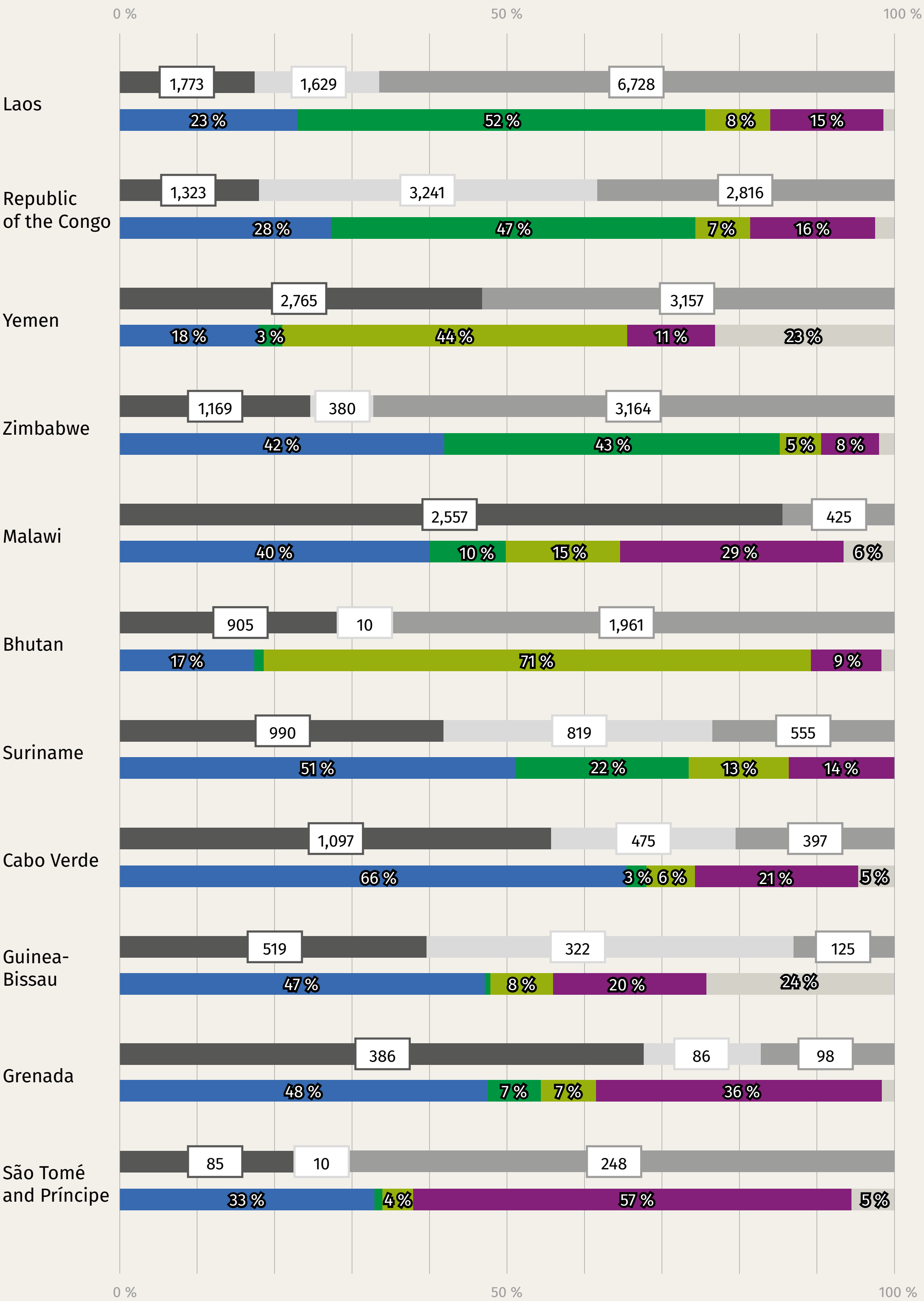
- which creditor groups (private, multilateral, bilateral) hold what percentage of outstanding claims,
- the size of the concessional share of multilateral claims,
- which of the official bilateral creditors is the most important creditor country and what percentage of outstanding claims this country holds,
- the amount of official German claims and discrepancies between the World Bank's reporting and the information of the German Federal Ministry of Finance (BMF) in the data on German claims,
- what percentage of outstanding claims is the political responsibility of which group of countries.

Fig. 5: Claims against very critically indebted countries by creditor group (in USD billion) and by political responsibility



* See Box 3 on p. 29 on assigning political responsibility for outstanding claims to individual (groups of) states.

Fig. 5 continued: Claims against very critically indebted countries by creditor group (in USD billion) and by political responsibility



Source: Own llustration based on data from the World Bank's International Debt Statistics (2023) and IMF country reports.

[1] In this text, we refer to the same countries as in Article 'The global debt situation' and analyse the composition of the creditors for all states for which data is available from the World Bank's International Debt Statistics or IMF country reports. However, we exclude Somalia from the analysis, as the data available refer to the reporting date 31/12/2022 and Somalia received comprehensive debt cancellation as part of the HIPC initiative in 2023. See also *'The global debt situation', p. 8*.

[2] While World Bank puts German official claims at around USD 30 billion, the German Federal Ministry of Finance reports claims of only USD 12.5 billion. For more information on how this gap can be explained at country level, see additional Table 2 (online). For a discussion of the discrepancy between the data, see Stutz, M. (19/05/2023): 'Deutsche Chinabanken'.

[3] In 2023 alone, Russia disbursed loans amounting to around USD 20 billion to countries in the Global South. This makes Russian disbursements almost as high as those of China (USD 21 billion) and higher than those of Japan (USD 17 billion). The main beneficiary of Russian loans was Egypt, receiving roughly USD 12 billion. Bangladesh, India and Belarus also received high disbursements.

[4] In addition, France, whose Ministry of Finance acts as the Paris Club's secretariat, is traditionally part of the chairs of the official creditor committee. This is an established practice which has, however, never been set down in writing.

[5] In principle, only in the case of countries benefiting from the G20 Common Framework can it be assumed that China and the Western states negotiate in a joint creditor committee.

[6] Shortly before the Paris Finance Summit in June 2023, Portugal offered Cabo Verde a debt swap of its total outstanding claims (about USD 150 million) for climate-related investments. See Reuters (20/06/2023): 'Portugal to swap $153 million Cape Verde debt for nature investments'.

[7] Data are available from 1970 onwards.

[8] See for example Financial Times (10/01/2024): 'Emerging market debt issuance hits record as borrowing costs fall'.

[9] The procyclical nature of private lending also became apparent in past crises. For example, extensive loans were granted to countries of the Global South in the 1970s. In the 1980s, however, these nations had to pay more in interest and principal to private creditors than the latter made available in the form of new loans. Back then, the net flows were only negative when interest payments were also taken into account. See erlassjahr.de (ed.) (2021): 'Von Gläubigern und Schuldnern', p. 44. Today, principal payments alone amount to more than new lending inflows.

[10] Lending by official bilateral creditors was on average relatively stable during the crisis years. Like private actors, China cut back on its official bilateral lending and received more money in repayments than it made available in the form of new loans. Yet, it should be noted that China has established a comprehensive currency swap system with debtor nations on which the latter could fall back in the case of payment difficulties. See Horn et al. (2023): 'China as an International Lender of Last Resort', Kiel Working Paper No. 2244. Other official creditors, in particular Japan, India and France, increased their official lending when the COVID-19 pandemic broke out.

[11] A similar pattern was discernible in the debt crisis of the 1980s and 1990s. See erlassjahr.de (13/01/2022): 'Weltbank: Common Framework ungenügend'.

[12] See German Federal Ministry of Finance (12/10/2022): 'Internationale Schuldenstrategie zur Entlastung hoch verschuldeter Länder'.

[13] For a description of how the Common Framework works, see Stutz, M. (2021): 'Debt restructuring in times of corona: Group-based, coordinated, but ultimately purely symbolic?' in: erlassjahr.de/Misereor (eds.): Global Sovereign Debt Monitor 2021.

[14] See Stutz, M (2021).

[15] Common Framework-beneficiary countries are marked with an * in the table on the inside back cover of this Global Sovereign Debt Monitor.

[16] Passing 'anti-holdout laws' could, for example, support debtor nations when confronting their private creditors. See Stutz, M. (2022): 'The Potential of National Legislation for the Fair Resolution of Global Debt Crises', erlassjahr.de Focus Paper No. 9.

[17] See Paris Club (13/10/2022): 'Meeting of the creditor committee for Chad under the Common Framework'.

[18] See Paris Club (30/11/2023): 'The Paris Club welcomes the Agreement to provide Ethiopia with a debt standstill'.

[19] See Paris Club (23/06/2023): 'The Paris Club welcomes Zambia's debt restructuring agreement'.

[20] See Jones, T. (06/09/2022) on Twitter/X.

[21] According to the Paris Club (23/06/2023), the agreement meets the requirements of the IMF programme. The latter scheduled comprehensive relief for the debt servicing obligations of the 2020s, while also permitting payments to be postponed to the 2030s (see Jones, T. (06/09/2023)). Whilst the agreement is not public, private creditors have stated that official actors have not granted real cancellations, but rather used the option of an extension of payments (see Reuters (20/11/2023): 'Zambia dealt major setback as official creditors object to bond deal'). This was also confirmed to us by insiders.

[22] Ghanaian Ministry of Finance (12/01/2024): 'Ghana reaches agreement with official creditors on debt treatment under the G20 Common Framework'.

[23] Insiders say that China was highly interested in coming to terms with Sri Lanka quickly in order to conclude further investment agreements with the country. In fact, shortly after the debt restructuring agreement between China and Sri Lanka it became known that China had been awarded a contract to establish a refinery in the Sri Lankan city of Hambantota. See Mint (28/11/2023): 'Mint Explainer: What China's $4.5-bn investment in Sri Lanka means for India'.

[24] The IMF's debt sustainability analysis for Sri Lanka of March and December 2023 stated that debt restructuring will not resolve the country's debt crisis: 'Even after a successful program and debt restructuring, debt risks will remain high for many years.' Still, the calculated need for debt relief was not adjusted.

[25] See Zucker-Marques, M. (16/11/2023): 'Winner Takes All – Twice: How Bondholders Triumph, Before and After Debt Restructuring' and Bloomberg (19/10/2023): 'Sri Lanka Bondholders' Proposal Sees Government Pushback'.

[26] See Rehbein, K. (2020): 'From growth optimism to a lost development decade – The dangerous role of the IMF in the crisis of the Global South', erlassjahr.de Focus Paper 4.

[27] In the case of Sri Lanka, investors offered a 20% haircut, while Sri Lanka had demanded 30% in line with the IMF's calculations. See Bloomberg (19/10/2023) and Reuters (29/06/2023): 'Sri Lanka asks foreign investors for a 30% haircut in debt restructure'. In Zambia, the private creditors' proposal is not publicly known, but it was initially rejected by the IMF as well as by Zambia's official bilateral creditors as being insufficient. Even after a revision, it was still opposed by the official bilateral creditors (apparently not least due to pressure from China). See Reuters (20/11/2023): 'Zambia dealt major setback as official creditors object to bond deal'.

[28] IMF (2021): 'Country Report No. 2021/280', p. 50.

[29] PR Newswire (06/11/2023).

[30] See Zucker-Marques, M. (16/11/2023).

[31] See in comparison IMF (2021): 'Country Report No. 2021/280', p. 50 and IMF (2023): 'Country Report No. 2023/350', p. 54.

[32] IMF (2023).

33 See Zucker-Marques, M. (16/11/2023).

34 It was agreed in the deal to multiply the nominal cancellation by a factor of 1.2, resulting in an entitlement of private creditors to approximately USD 314 million in concessions. As this amount is not disbursed directly, the creditors' compensation claim not yet disbursed is capitalised with an annual interest rate of 9% and will be disbursed subsequently until 2050, depending on future oil revenues. A fixed ceiling of the nominal compensation payments was established at 2.5 times the original amount of compensation (USD 314 million). See PR Newswire (03/05/2023): 'Republic of Suriname Reaches Agreement in Principle with Euronote Creditor Committee on Debt Restructuring Terms' and PR Newswire (06/11/2023). Another very good explanation can be found in Maret, T. (10/05/2023): 'Suriname's sovereign restructuring on the move'.

35 The compensation claim not yet disbursed shall then be capitalised with an interest rate of 13% instead of 9%.

36 See in comparison PR Newswire (03/05/2023) and PR Newswire (06/11/2023) and Maret, T. (24./10/2023) on Twitter/X.

37 See Bloomberg (20/12/2023): 'China Is Damping Zambia's Efforts to Come Out of Default'.

38 See erlassjahr.de (ed.) (2023): 'Position Paper: Reform proposals to implement the mandate in the 2021-2025 German coalition agreement to support a sovereign debt workout mechanism', pp. 7 ff.

39 See PR Newswire (03/05/2023): 'Republic of Suriname Reaches Agreement in Principle with Euronote Creditor Committee on Debt Restructuring Terms'.

40 See for example Stutz, M. (2023): 'The power of legislation: How national legislation can contribute to a fair solution for the global debt crisis' in: erlassjahr.de, Misereor (eds.): Global Sovereign Debt Monitor 2023 and Stutz, M. (10/11/2023): 'Sri Lanka: Vorübergehende Aussetzung im Rechtsstreit mit der Hamilton Reserve Bank'.

41 See Stutz, M. (2022).

42 See for example Zucker-Marques, M. et al. (2023): 'Debt Relief by Multilateral Lenders. Why, How and How Much?'.

43 For instance, the IMF was guided by the Paris Club's classification of an institution's claims and by the treatment of the institution in the framework of the HIPC initiative, an initiative which was for its part designed by the G7/G8 states. See IMF (2021): 'Guidance Note on Implementing the Debt Limits Policy in Fund Supported Programs'.

44 IMF Policy Paper (18/05/2022): 'Reviews of the Fund's Sovereign Arrears Policies and Perimeters'.

45 See Reuters (20/06/2023): 'Ghana aims to exempt Afrexim loans from debt restructuring'.

46 Reuters (20/07/2022): 'Ghana parliament approves $750 mln loan to support budget'.

47 See Zucker-Marques, M. et al. (2023).

48 For the classification as a commercial creditor, it is also decisive that according to the IMF's criteria, the Afreximbank clearly cannot be classified as a multilateral institution, as part of its shareholders are commercial. In the IMF's new definition criteria, this is explicitly named as a criterion for exclusion. The definition was, however, drafted in the context of the case of Malawi and with the aim to continue to exclude the World Bank's participation, but to enable the involvement of the Afreximbank and other such banks.

49 See AllAfrica (20/06/2023): 'Malawi: Afrexim Bank Considers Restructuring Malawi's U.S.$850 Million Debt'.

50 In the IMF and the World Bank, the G7 and EU member states share more than half of the voting rights, and in the four most important multilateral lending institutions after them, the Asian Development Bank (ADB), the Inter-American Development Bank (IADB), the African Development Bank (AfDB) and the European Investment Bank (EIB), the weight of their votes – 45%, 49%, 34% and 100% respectively – is considerable.

51 For more proposals as to what the German Federal Government could do to effect the involvement of multilateral claims and ensure the participation of private creditors in comprehensive debt relief, see erlassjahr.de, Misereor, Brot für die Welt (ed.) (2023): 'Bringing all creditors on board! What the German government can do to ensure the participation of all creditors in comprehensive debt cancellation'.

52 The lack of transparency prevents us from clearly identifying the individual private commercial creditors. Thus, to assign political responsibility we will use the World Bank classification as a guide. The World Bank's International Debt Statistics assigns responsibility for claims from private banks and other private creditors to specific creditor countries based on their principal location.

53 The lack of transparency prevents us from understanding which country's laws governed the issuing of individual bonds (an estimated 97% were issued under British or US law). Therefore, the responsibility for outstanding bond claims will be assigned in full to the G7 states. See IMF (2020): 'The international architecture for resolving sovereign debt involving private-sector creditors – recent developments, challenges, and reform options', p. 22.

54 Details of creditors are available for 20 of the 24 very critically indebted countries. No details of creditors are available for Bahrain, Panama, Uruguay and Venezuela.

Just debt relief for more climate justice

How to address the debt and climate crises together

By Kristina Rehbein

The political debate is increasingly linking two global crises: the climate (financing) crisis and the debt crisis in the Global South. Countries in the Global South often lack sufficient financial resources to cope with the consequences of climate change. Increasing risks of debt distress further restrict their ability to take political action. What political steps are needed to effectively counter both crises?

In the context of the COP28 climate conference in Dubai at the end of last year, the German Federal Ministry for Economic Cooperation and Development (BMZ) took the following position:

'The climate issue is also a debt issue, because debt and a country's vulnerability to climate change are closely linked. Debt can hinder urgently needed investments in climate change mitigation and adaptation. This in turn increases a country's vulnerability to extreme weather events.'[1]

In 2023, expenditures for debt servicing in countries of the Global South were in fact 12.5 times higher than their expenditures for tackling the effects of climate change. On average, countries in the Global South spend only 2.5% of their government revenue on strengthening their climate resilience. In contrast, just under 33% of government revenue is used to service debt. According to estimates, this imbalance will be even greater in 2024.[2]

Stakeholders from the climate finance sector are using the global debt crisis as an opportunity to step up pressure in favour of climate finance. At the same time, debtor countries are using the global interest in tackling the climate crisis to call for better and more affordable development finance in view of the ongoing difficulties in accessing capital. This is because many governments are increasingly faced with a tight budget situation due to debt service obligations. Additionally, risks like the weakening global economy and rising interest rates in the Global North compound the issue. Net financial transfers to individual groups of countries are falling significantly, and many countries have been unable to secure favourable financing terms on the capital market for years.

When countries are already in a debt crisis, creditors rarely offer debt relief in current negotiations. In addition, refinancing pressure will increase further in 2024 and 2025 due to high debt service obligations. At the same time, the UN SDG Summit in New York last September highlighted the significant shortcomings in the financing of the implementation of the Sustainable Development Goals (SDGs) and made this both a political and public debate.

In addition to calling for more favourable access to development financing, some stakeholders are also advocating for greater participation in the international financial system. They argue that this should be based on the principle of 'common but differentiated responsibility' for the climate crisis (sometimes highlighting the historical responsibility of the Global North)[3]. They are demanding fairer participation in decision-making processes that affect the international financial architecture, as well as better access, for example, to loans on the international capital market. The Vulnerable20 group of states even describes the connection between the debt crisis and the climate crisis as a systemic risk[4] and calls for a "transformation" of the debt resolution architecture, in part because existing mechanisms do not guarantee a timely, predictable and fair solution.[5]

The Vulnerable20 group of states calls for a "transformation" of the debt resolution architecture.

Debt relief is propagated as a means of killing two birds with one stone: solving the debt crisis and at the same time mobilising sufficient resources that are needed in the Global South for greater climate resilience.

But what role can debt relief actually play?

Climate resilient debt clauses, debt conversion and more – real potential or just window dressing?

The COP28 final declaration contains two options in particular that deal with debt relief: the use of "climate resilient debt clauses" and debt conversion for climate investments,[6] sometimes in combination with new financial products that are linked to sustainability criteria. Larger commitments were also mentioned, such as the transition 'away from fossil fuels in energy systems in a just, orderly and equitable manner'[7].

Climate resilient debt clauses

Climate resilient debt clauses are an element in loan agreements that allow debtor nations to temporarily suspend repayments to their creditors in the event of a natural disaster. This allows highly indebted countries in particular to reallocate funds originally budgeted for debt servicing to disaster relief. A contractual agreement made in advance can significantly reduce the prevailing stigma for the debtor nation of having to ask its creditors for debt relief. For many years, civil society has called for such an automatic debt moratorium in the event of natural disasters. This type of clause has also already been included in individual loan agreements, such as those in restructured bonds. However, multilateral development banks have so far insisted that their claims must always be paid on time.

Climate resilient debt clauses allow debtor nations to temporarily suspend repayments to their creditors in the event of a natural disaster.

Back in June 2023, the World Bank announced that it would include clauses in its loan agreements for certain countries in future that would allow the beneficiary countries to suspend their payments in the event of defined climate disasters. At the COP28, this offer was again significantly expanded. A few years ago, taking such a step would have been unimaginable. The argument was put forward that allowing the suspension of payments could jeopardise the World Bank's top rating on the financial markets and thus worsen lower-income countries' access to concessional finance.[8]

At the COP28, other development banks announced that they would follow the World Bank's lead, including the African Development Bank and the European Bank for Reconstruction and Development (EBRD). Official bilateral creditors such as the UK[9] and France also announced the introduction or expansion of corresponding schemes. Before that, such credit clauses had already been used in restructured bond contracts to suspend the debt service of some island states.[10]

Box 1: The diverse range of existing and planned climate resilient debt clauses

Although the announcements may sound similar, the climate resilient debt clauses planned or already in place by multilateral development banks and official bilateral creditors differ in structure. For some schemes, only a few details are publicly available:

European Bank for Reconstruction and Development (EBRD)
- For lower middle-income countries in regions where the EBRD is mainly active
- Suspension of principal payments on new loans for a two-year period
- In the event of floods, droughts and earthquakes
- If a national emergency is declared

African Development Bank (AfDB)
- Only loans within the soft loan window of the African Development Fund

World Bank[11]
- For all beneficiary countries, both in new loan agreements and retroactively in existing agreements with a remaining term of at least five years
- For 45 small island states and other small states
- Suspension of principal and interest payments for up to two years in the event of a disaster
- In the event of earthquakes, tropical cyclones and hurricanes
- If a national emergency is declared
- After the World Bank has assessed and found that the scale of the disaster meets certain criteria
- The final maturity date of the loan is not extended, meaning that higher debt service payments must be made in a shorter period of time post-deferral.
- Countries using the clause are charged an annual fee of five basis points (0.05%) on the disbursed and outstanding loan balance.

European Investment Bank (EIB)
- For small island states and the “least developed countries”
- Suspension in the event of predefined climate disasters
- Only principal payments are suspended

Inter-American Development Bank (IADB)
- Announcement of the introduction of “hurricane clauses” in 2021. So far, it is only publicly known that Barbados was given the option of a two-year moratorium on the repayment of its then five IADB loans in the event of a natural disaster.

UK Export Finance
- For low-income countries and small island states
- Suspension must be applied for.
- 12-month suspension of principal and interest payments
- Repayment over a period of five years
- Clauses are only included in new loan agreements. Payment obligations from existing contracts must continue to be honoured even in the event of a disaster.

While we see the planned climate resilient debt clauses of the multilateral development banks and official bilateral creditors as a positive development, erlassjahr.de and Misereor criticise the following:

- **Inconsistency of the proposals**, for example with regard to the period of suspension or the scope of the relief (in some cases only interest payments and no principal payments are covered)l.
- The **group of eligible countries** is in most cases **very limited** and excludes other climate-vulnerable, highly indebted countries. It can be assumed that the development banks, due to their claimed preferred creditor status, draft the clauses in such a way that they lose absolutely nothing. It is therefore not clear why the group is arbitrarily restricted.
- **Excluding certain types of climate disasters** without clear justification
- **Unclear procedure for suspension in the event of a disaster**, for example the difference between an "automatic" suspension and a suspension "on request" is not clear. Applying for a debt service suspension must not lead to resource-intensive negotiation processes or expose the country to the stigma inherent in debt restructuring by requiring an application.
- In some cases, **suspension only in the case of new loans**. This means that in the event of natural disasters occurring in the near future, the relevant creditors do not contribute to overcoming damage and losses, as payment obligations from existing contracts must still be settled.

In addition, two basic conditions are currently rendering climate resilient debt clauses less appealing for debtor countries or are significantly limiting their transformative impact:

1. Suspension of payments is **not yet possible for the entire debt** or the entire budgeted debt service.

The fiscal leeway a creditor gains from the suspension of payments under a climate resilient debt clause may be relatively minor compared to the damages caused by a natural disaster. If a moratorium does not cover the entire debt, there is a risk that the funds will be used for debt service payments to non-participating creditors and will not be available for disaster relief. In order for the clauses to really have their intended effect, suspension of payments should therefore be possible for all debt service payments.[12]

2. There is **no debt restructuring procedure** that follows on from the moratorium that would cancel repayment obligations no longer sustainable in the long-term owing to the disaster. A comprehensive restructuring of all external debt would be necessary to reduce the debt burden to a sustainable level. This would help prevent the affected country from slipping back into debt distress, considering its vulnerability.

The destruction of productive capacities due to a natural disaster can trigger a debt crisis or lead to the debt no longer being sustainable for the country in the medium term. In this case, climate resilient debt clauses provide short-term liquidity, but they do not represent real debt relief. On the contrary: if the previously deferred payments fall due after the end of the moratorium, such clauses can even place an additional burden on a state, as the deferred debt service payments are added to the regular debt service payments due at this time.

Climate resilient debt clauses provide short-term liquidity, but they do not represent real debt relief.

In the case of the World Bank, for example, it is not possible to extend the final maturity date of the loan and thus to add the deferral period to the original loan period. Instead, countries must even pay back the loan in a shorter period of time than originally planned. In its product note, the World Bank gives an illustrative example: not only is the country's actual loan period shortened by two years under the scheme, but it must also make significantly higher debt service payments directly after the end of the deferral period. In light of the severe destruction caused by natural disasters that triggers the use of the clause, it cannot be assumed that affected countries can simply resume to service their debt, especially as post-deferral loan repayments are much higher.

Therefore, options for alleviation of deferred debt servicing are needed. Moreover, a sustainable improvement in the debt situation requires a two-stage process that provides for a debt moratorium as well as a debt restructuring option – including the cancellation of debt that is no longer sustainable.[13]

Debt conversions for climate protection

In the case of debt conversion, the creditor cancels its claims if, in return, the debtor country provides funds for example for sustainable development projects. This is intended to reduce the unsustainable debt burden and at the same time promote investment in mutually agreed climate protection or development projects.[14] Unlike debt service, which is usually due in foreign currency, the country usually makes investments for sustainable development in domestic currency, which represents additional relief.

The German Federal Government, for example, declared it would cancel EUR 60 million of the debt of Kenya – the host of the Africa Climate Summit 2023 – in return for investments in renewable energy and more climate-friendly agriculture. However, to our knowledge, this was not supported by additional funding nor was it associated with any reforms of the German debt conversion facility, which has been under discussion for some time. Instead, the debt swap was allocated from the existing annual budget of EUR 150 million for the German debt conversion facility, which previously did not focus on climate protection-related conversions.

In the case of debt conversion, the creditor cancels its claims if, in return, the debtor country provides funds for sustainable development projects.

There were no similar commitments from official creditors or expansions of existing bilateral conversion programmes on a larger scale in 2023.[15] Rather, the focus was on instruments other than debt conversions in the traditional sense – even if they were labelled as such – which were complex financial operations designed to make highly indebted countries more attractive to investors. Such operations have already been carried out in **Ecuador** and **Gabon**, attracting significant media attention.[16] Essentially, this involves buying back existing debt securities (already traded on secondary markets at a lower value), for example by issuing a new bond at better conditions, sometimes with a guarantee from multilateral development banks. The room for manoeuvre for investments is created here by the fall in the market price, rather than by creditors voluntarily reducing their claims.

Investment banks and other third parties consider this type of transaction an attractive market.[17] At the COP28, it was therefore decided to create a task force[18] to deal with the risk minimisation of new bonds in debt-for-nature swaps. The extent to which these transactions can actually raise additional funds for climate protection is questionable to say the least. The lack of transparency, high transaction costs and the risk of greenwashing are also criticised.[19]

Debt conversions are not a suitable instrument for overcoming unsustainable debt situations.

Irrespective of the points mentioned above, the following applies: debt conversions are not a suitable instrument for overcoming unsustainable debt situations. Firstly, the amounts involved are too small and secondly, the effect is only noticeable in the medium term. Moreover, countries already struggling to pay their debt cannot always generate funds in their own currency. In these cases, debt conversion can even place an additional strain on the budget, as the payment obligations fall due more or less immediately, albeit usually at a significant discount. Debt conversions can therefore be useful instruments for financing development and climate protection projects under certain conditions. However, they do not provide the necessary relief for countries with unsustainable levels of debt.

While financial experts acknowledge this problem, discussions on comprehensive reforms to quickly resolve unsustainable debt situations are not taking place. In this context, the increasing discussion about debt conversions appears to be more of a diversionary tactic to avoid pressing structural issues. The option of debt conversion might actually deter highly indebted countries from pursuing debt restructuring: in a pivotal paper for the discussion, authors from the International Monetary Fund (IMF) described debt-for-climate swaps as a viable option when grants and debt relief are 'not available' or when countries are concerned about the reputational risks associated with debt restructuring.[20]

Debt relief and phasing out fossil fuels

Some observers describe the agreement at the COP28 to move away from fossil fuels as a breakthrough.[21] However, a plan outlining specific steps is still not in place.

Debt relief could serve as an incentive for phasing out fossil fuels. Debt relief could enable sharing the costs that Global South countries face in phasing out fossil fuels with entities who have profited in the past by granting loans for fossil fuel extraction. In this context, a distinction must be made between countries that already have unsustainable levels of debt and countries whose debt is still sustainable.

In the case of countries with unsustainably high debt levels, debt should be cancelled to the extent necessary without imposing economic conditions. Climate-related costs and risks could be taken into account when determining debt sustainability, however. This includes factoring lower revenues into the budget due to the phase-out of fossil fuel extraction.

Debt cancellation could serve as an incentive for phasing out fossil fuels.

For countries whose debt situation is still sustainable, on the other hand, debt cancellation could create an incentive for phasing out fossil fuels. If the debt is still sustainable, cancelling it can be conditional on the country actually beginning to phase out fossil fuel extraction.

Options for action by the German Federal Government

Option for action 1: Climate resilient debt clauses and debt moratoria

- The German Federal Government should follow the example of the World Bank and other creditors and include climate resilient debt clauses, both retroactively in existing loan agreements and in new loan agreements. This does not require a European or global consensus.

- It should advocate internationally for debt moratoria that include all creditors in the event of natural disasters, as well as for subsequent comprehensive debt restructuring.

- Because including clauses that are standardised and extensive enough in all existing or new contracts is a long-term and arduous task, the German government should also use other opportunities to persuade all creditors to participate in moratoria, allowing debtor countries to suspend payments without fear of sanctions. Following a climate catastrophe, the German Federal Government should proactively offer to suspend debt repayments for critically indebted countries where it is a creditor. Additionally, it should seek to politically and legally justify the suspension of payments to other creditors. To this end, Germany should enact legislation that block legal action and enforcement related to a natural disaster within its jurisdiction for a specified period. It should also endeavour to ensure that other countries adopt similar regulations in current legislative processes.[22]

- In international negotiations, for example at the Fourth International Conference on Financing for Development in Spain in 2025, the German Federal Government should advocate for a debt relief option for climate-vulnerable countries. Such debt relief options were already mentioned in the final document of the Third International Conference on Financing for Development in 2015.[23]

Option for action 2: Improving debt conversions

- The German Federal Government should reform its debt conversion facility to allow more countries whose debt are not yet unsustainable to implement debt conversions with fewer access hurdles and larger volumes.

- However, since debt conversions are not an instrument for overcoming debt crises, the German Federal Government should take up the proposals of climate-vulnerable states and groups of states and improve debt relief processes to ensure that critically indebted countries have access to rapid, coordinated and comprehensive debt restructuring. These include, for example, proposals by the Vulnerable20 to create a pool of independent conflict mediators for debt restructuring[24] or the call to involve multilateral development banks in debt restructuring.[25] One option for the German Federal Government would be to have an independent review carried out to determine whether debt sustainability could still be restored in critically indebted countries without involving multilateral creditors.[26]

- Finally, the German Federal Government should use its international influence to reinstate the request made at the Africa Climate Summit 2023 to review the G20's Common Framework for debt relief. It should also advocate for the independent review of current and past debt relief initiatives discussed at the UN Financing for Development Forum in April 2023.

The last two structural policy proposals go beyond a one-off cancellation in the context of the acute climate crisis and would represent a step towards a more orderly and reliable financial architecture for overcoming debt crises.

Option for action 3: Combining debt cancellations with fossil fuel phase-out

- In preparation for the COP29 next November in Baku, Azerbaijan, the German Federal Government should offer to cancel its claims against debtor countries that commit to phasing out fossil fuels and ceasing fossil fuel production. It should also create incentives for Germany-based companies to also cancel their claims against these countries. In order to pr omote this approach internationally, the German Federal Government should also use its political influence with countries it is allied with and international financial organisations.

- The German Federal Government should also work to ensure that bilateral and multilateral trade agreements are reformed such that countries that withdraw from fossil fuel extraction do not incur additional debt burdens as a result of investment arbitration proceedings.

Conclusion

International discourse reveals widespread consensus that the worsening debt crisis and the unbearable burden of rising debt service obligations are making it increasingly difficult for many countries in the Global South to cope with the consequences of climate change. However, the political solutions adopted so far have not adequately addressed this issue. This is because they focus only on measures that address the short-term financing needs of countries in the Global South. However, the question of how to achieve long-term debt sustainability to stabilise national budgets is largely ignored. The discussion on a fairer debt architecture, which is independent of climate financing issues, is also overshadowed by the prevailing debates on instruments for conditional debt operations and liquidity enhancement. Yet the climate crisis could also be a catalyst for overcoming the political deadlock in the search for lasting solutions in global debt management. In view of the worsening climate and debt crisis, the German Federal Government can and should assume a global leadership role by implementing the options for action outlined here.

The climate crisis could also be a catalyst for overcoming the political deadlock in global debt management.

1 See BMZ press release of 8 December 2023: 'Debt-for-climate swaps'.

2 See Development Finance International (2023): 'The worst ever global debt crisis: Putting climate adaptation spending out of reach'.

3 See, for example, V20 (15/10/2023): 'V20 Ministerial Dialogue XI Communique – Securing Shared Prosperity and Sustainable Development in a Climate Insecure World'.

4 See V20 (16/10/2023): 'V20 Ministerial Communique – Ministerial Dialogue IX of the Vulnerable 20 (V20) Group', Section 1 'Climate Finance', third indent.

5 See V20 (undated): 'Collective Statement – Emergency Coalition for Debt Sustainability and Climate Prosperity'.

6 See COP28 (2023): 'COP28 UAE Leader's Declaration on a Global Climate Finance Framework'.

7 See Morton, A. et. al. (13/12/2023): 'COP28 landmark deal agreed to 'transition away' from fossil fuels'.

8 When discussing whether multilateral development banks should also participate in the net present value (NPV)-neutral suspension of debt service payments as part of the G20 Debt Service Suspension Initiative (DSSI), the banks argued that such a step could jeopardise their preferred creditor status in the medium and long term. Any step that might cast doubt should therefore be avoided. See Humphrey, C. and Mustapha, S. (2020): 'Lend or suspend? Maximising the impact of multilateral bank financing in the Covid-19 crisis', ODI Briefing.

9 The UK had already announced at the COP27 that it would include the clauses in the lending programmes of its export credit agency.

10 See overview in Landers, C. and Aboneaaj, R. (13/04/2023): 'Should MDBs Be Leading the Adoption of Debt Pause Clauses'.

11 In January 2024, the World Bank published a detailed product note on its climate resilient debt clauses, see 'Climate Resilient Debt Clause (CRDC) – Product Note'. All other initiatives described in this Box are based on data from November 2023.

12 See analysis and calculations by Landers, C. and Aboneaaj, R. (16/06/2023): 'Debt Suspension Clauses to the Rescue?'. The V20 demanded, for example, that the IMF should also include such clauses.

13 See suggestions in Kaiser, J. (2020): 'Der nächste Sturm kommt mit Sicherheit: Entschuldung als Krisenreaktion in Zeiten des Klimawandels', erlassjahr.de-Fachinformation 64.

14 For more details on the instrument of debt conversion, see Kaiser, J. (2023): 'Yesterday debt, today development finance. Is debt conversion a way out of the crisis?' in erlassjahr.de and Misereor (ed.): Global Sovereign Debt Monitor 2022.

15 Portugal, for example, offered Cabo Verde a swap amounting to EUR 140 million, see Goncalves, S. (20/06/2023): 'Portugal to swap $153 million Cape Verde debt for nature investments'.

16 See Jones, M. and Campos, R. (09/05/2023): 'Ecuador seals record debt-for-nature swap with Galapagos bond' and Savage, R. (08/08/2023): 'Gabon sees Africa's first 'debt-for-nature' swap over the line'.

17 See White, N. (05/12/2023): 'Goldman is working on its first deals in 'Innovative' Swaps'.

18 See Climate Champions (04/12/2023): 'Joint Declaration and Task Force on Credit Enhancement for Sustainability-Linked Sovereign Financing'.

19 See for example Kaiser, J. (2023): 'Ecuador – Credit Suisse: Ein Debt for Nature Swap ist etwas anderes'; Standing, A. (15/11/2023): 'Gabon's Odious Debt-for-Ocean Swap: The implications for ocean governance'; Fresnillo, I. (2023): 'Miracle or mirage: are debt swaps really a silver bullet?', Eurodad Briefing, and Ortega, D. and Standing, A. (2023): 'Debt-for-climate swaps. Can they really be aligned with debt and climate justice?'.

20 See Chamon, M. et. al (2022): 'Debt-for-Climate Swaps: Analysis, Design, and Implementation', IMF WP/22/162, p. 5.

21 However, there was also significant criticism: neither were clear targets and timelines agreed, nor was the burden-sharing between the Global North and South defined. There are also many loopholes in the wording.

22 See a detailed proposal here: Stutz, M. (2023): 'The Potential of National Legislation for the Fair Resolution of Global Debt Crises – An overview and assessment of existing laws and legislative proposals', erlassjahr.de Focus Paper 9, 2nd edition, from p. 12.

23 See the proposal by Kaiser, J. (2020).

24 See erlassjahr.de (2023): 'Position Paper: Reform proposals to implement the mandate in the 2021-2025 German coalition agreement to support a sovereign debt workout mechanism', item 1.2, and V20 (27/10/2021): 'V20 Statement on Debt Restructuring Option for Climate-Vulnerable Nations'.

25 See V20 (15/10/2023).

26 See erlassjahr.de (2023), item 2.3.

Austerity, dispossession and injustice

Facets of the debt crisis in Sri Lanka

By Dr Ahilan Kadirgamar

Sri Lanka defaulted on its external debt for the first time in its postcolonial history in April 2022. The International Monetary Fund (IMF)-led process of recovery that followed has not only been disastrous in terms of the economic policy package proposed by the Government. The underlying analysis of the causes of the debt crisis itself is also flawed. Sri Lanka provides lessons about both the broken global financial system and the widespread consequences of an unjust debt resolution architecture affecting other countries in the Global South.

While debt problems accelerated particularly with the Covid-19 disruptions and the war in Ukraine, the roots of the crisis, different from dominant narratives, go back to the way Sri Lanka was integrated into global capitalism. Sri Lanka's post-war development policies of financialisation that began after May 2009 coincided with the global financial crisis where great flows of capital from the West flooded countries in the Global South. Sri Lanka's two IMF agreements in July 2009 and June 2016 encouraged such external borrowings and particularly the floating of International Sovereign Bonds.

Sri Lanka is one of the first countries to restructure its debt in the post-Covid-era. Given its complex creditor profile, it is a test case for the international community and the current global debt restructuring regime. Debt restructuring is fraught with difficulties given the different interests of the multilateral agencies, bilateral donors and commercial lenders. Multilateral agencies are exempted from debt restructuring on the basis of their claimed preferred creditor status, which is being challenged by Sri Lanka's major bilateral donor, China. Next, there is little coordination between the two major camps of bilateral donors with China on one side and Japan along with India on the other, particularly given their geopolitical rivalry to control Sri Lanka in the Indian Ocean. The commercial lenders, including major investment funds which hold Sri Lanka's international sovereign bonds, are reluctant even to provide the minimal haircut proposed by the IMF's Debt Sustainability Analysis (DSA). Instead, they are negotiating hard to gain their pound of flesh.

Sri Lanka is a test case for the international community and the current global debt restructuring regime.

The commercial lenders are negotiating hard to gain their pound of flesh.

Creditor-dominated debt restructuring

In debt restructurings, the IMF traditionally plays a leading role. The DSA is the basis for debt relief discussions between the creditors. However, instead of being a neutral arbiter, the IMF programme for Sri Lanka is primarily aimed at protecting the interests of past creditors and future investors: by providing minimal debt relief, ensuring a high level of debt servicing after debt restructuring, and eventually putting Sri Lanka back on the path of commercial borrowing. Indeed, the goal of the four-year IMF programme is to have Sri Lanka floating a US-Dollar 1.5 billion Eurobond, even though the cause of the current debt crisis itself can be traced to the large amount of international capital market loans floated by Sri Lanka. All this comes at the cost of Sri Lanka remaining economically fragile and susceptible to another default in the event of another shock: the DSA only seeks to reduce Sri Lanka's total public debt to 95% of GDP – compared with other countries, the level of debt considered sustainable remains extremely high. The IMF's revenue projections imply that, with the level of assumed debt restructuring, Sri Lanka would still use a third of its revenue for external debt servicing alone in the next years. By way of comparison, the IMF considers an external debt service of between 14% and a maximum of 23% of public revenue to be sustainable for low-income and lower middle-income countries. The IMF itself admits in the DSA that debt restructuring and the IMF programme will not restore debt sustainability, but that debt risks will remain high after debt restructuring.

In view of this scenario, the question arises what the consequences of this creditor-dominated debt restructuring will be for Sri Lanka. The economic, social and political consequences will therefore be discussed in more detail below.

The economic impact

In anticipatory obedience to the IMF and international creditors, the Sri Lankan government imposed austerity measures along with a host of other contractionary measures from early 2022 – one year before the IMF programme was approved. Those measures included the sudden devaluation of the rupee with the rise in inputs for production and essential needs of consumers; the major hikes in interest rates by the Central Bank from 6% to 16.5% resulting in credit becoming unaffordable for small businesses; market pricing of energy leading to the tripling of fuel and electricity prices dampening overall demand in the economy, and the halt of government capital expenditure. All this led to the economy contracting by 7.8% in 2022 and 3.6% in 2023. This unprecedented contraction of Sri Lanka's economy, possibly the worst since the Great Depression of the 1930s, has led to the collapse of many businesses and loss of formal sector employment. Informal livelihoods were also disrupted: for instance, when kerosene prices quadrupled, fisherfolk had to reduce their trips out to sea and their chances at earning an income were dramatically reduced.[1]

In 2022/2023, Sri Lanka's economy experienced what was probably the worst contraction since the Great Depression in the 1930s.

When the IMF programme came in March 2023, one of the central conditionalities was that Sri Lanka should achieve a primary budget surplus – meaning its revenues should be higher than its expenditure. Already in 2024, Sri Lanka requires a primary budget surplus to meet the IMF benchmark. Achieving a primary budget surplus from a primary budget deficit of 5.7% in 2021 will require government expenditure dwindling to a minimum. After all, it is next to impossible to generate high levels of revenues if the basis for income streams is lost at the same time. In view of the developments since the 1990s, in which spending and government revenue as a percentage of GDP have been on the decline,[2] it would be more desirable to focus on increasing revenue in as progressive a manner as possible, instead of cutting spending further. At present, however, the focus is primarily on austerity measures that further reduce the already low public spending.[3] To the extent that revenue adjustments are being made, this is being done in an extremely regressive manner (see below).

Having to deal with the crisis under the current conditions of austerity gives the elites the opportunity to pursue a more or less hidden agenda of a fire sale of Sri Lanka's public assets. Privatisation involving external actors would both increase foreign reserves and revenues for the government. The problem is however that in the future, the cost of utilities, fuel and many other public services could become unaffordable for the working people. In the Budget for 2024, sale of strategic lands and privatisation of energy, fuel, transport, banking and telecom infrastructure are being considered. Public companies that are currently running a profit, will be up for sale. This includes Sri Lanka Telecom. There are plans to lease 300,000 acres of state land for large scale commercial agricultural activities towards export-oriented production at the expense of small-scale farming. A new draft Fisheries Act seeks to allow licenses for foreign fishing vessels and commercialised fisheries more broadly at the expense of local small-scale fishing. Similarly, while the government has decided to capitalise state banks, they are also moving on divesting close to 20% of the shares these banks, raising questions about the future of affordable credit including during times of crisis during which shareholder interests gain prominence.

The elites pursue a more or less hidden agenda of a fire sale of Sri Lanka's public assets.

However, the major public good under threat is electricity: the Ceylon Electricity Board, the main public electricity provider on the island, is first going to be broken into multiple firms for generation, transmission and distribution, and will eventually be privatised. This would in effect reverse decades of progress in ensuring the public have affordable electricity.

In summary, the economic future of generations of Sri Lankans are now being wagered for the interests of powerful external financiers.

The social impact

In this context, the costs of the resolution of the current debt burden are socialised by passing them on to the working people. In strict adherence to the IMF programme, the government raised the goods and services tax from 8% to 18% as the main engine of revenue generation. This is suffocating the working people: such regressive indirect taxation comes after the onetime price hikes with the devaluation of the rupee and market pricing of energy, which has effectively doubled the cost of living while nominal wages have remained stagnant or declined. Another example is energy: as a prior condition to the IMF programme, the country is undergoing a bi-annual "cost-recovery pricing mechanism" for electricity. Several price increases in electricity tariffs until the end of 2023 effectively have led to electricity costs rising by up to 400% for some low-end users.[4] Customers who are unable to pay the high energy costs will be disconnected from the power grid.[5] The increased cost of living and deteriorating livelihoods also have an impact on food security and education. Malnutrition is on the rise, as are the number of school drop-outs and youth unemployment.[6] The situation of single women with dependents, and more broadly the rural and urban poor, are terrifying because little will change in their living conditions in the foreseeable future.

The economic future of generations of Sri Lankans are now being wagered for the interests of powerful external financiers.

The IMF programme also has a benchmark for how much a social safety net should cost for people affected by the impact of the austerity measures. This value shows the IMF's true priorities: while it sets aside (maximum) 4.5% of GDP per year for foreign currency debt servicing, only a mere 0.6% of GDP is to be provided for the social safety net through targeted cash transfers[7] – and this in a context, where poverty levels have doubled. While the 0.6% does not vary much from historically observed expenditure on cash transfers, needs have risen sharply due to the endangered livelihoods of a large part of the population as a result of the aforementioned regressive taxes, price hikes, etc. At the same time, spending on universal social services remain underfunded, seen for instance in fee levying in higher education or patients having to purchase their medicines when they go to government clinics. For a country that by the 1970s boasted high Human Development Indicators (HDIs) mainly thanks to its robust social welfare policies of free education, universal healthcare and a widespread food subsidy programme built up since the 1940s, the current policy package is a further direct attack on the welfare state. Gradually, targeted social protection measures are to replace universal provision.[8]

This is all the more dramatic given that in an economy where close to two thirds of the country's population belong to the informal sector, it is almost impossible to target social protection to predefined recipients. As the livelihoods of many people are seasonal, agriculture, for example, may be affected by a crisis at one time and fishing in another region at a different time. By restricting the groups of recipients, people who do not belong to the defined group fall out of the social safety net. The rationale behind implementing these targeted social protection measures seems to be the long-standing neoliberal agenda to abolish universal social benefits for which Sri Lanka was one of the last bastions.

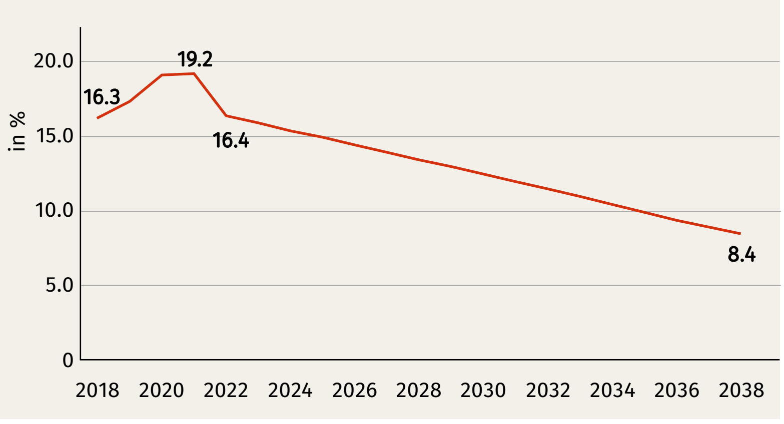
Workers in the formal sector – including women in the garment industry and tea pluckers that earn wages below the poverty line – are obliged in Sri Lanka to pay into pension funds to save for their retirement. This group was hit by an additional channel: international bondholders made a domestic debt restructuring (DDR) a condition for further negotiations, although the crisis was not a domestic debt crisis, but a purely external debt crisis. The IMF congratulated Sri Lanka about the DDR. However, the DDR will result in these retirement funds losing 47% of their value, while financial institutions and wealthy investors in local bonds have been left scot-free. The way in which the domestic debt restructuring was carried out – even prior to external debt restructuring and solely focusing on retirement funds – is illustrative of the broader approach to debt resolution: namely to shift most of the burden onto working people.

Most of the burden of the crisis is being shifted onto working people.

Exploitation and social exclusion coupled with brutal state repression are the means by which the debt crisis is being resolved at the social level in Sri Lanka. This is particularly evident in the way the government deals with the plight of economically marginalised people: since December 2023 the government focuses on a new war on drugs and petty crimes. This however does not mean focusing on solving public health and social issues, but repression in the form of unauthorised searches and arbitrary arrests, with over forty thousand people having been arrested and human rights organisations voicing concerns over grave human rights violations.[10]

Exploitation and social exclusion coupled with brutal state repression are the means by which the debt crisis is being resolved at the social level in Sri Lanka.

Fig. 1: Estimated performance of pension funds after domestic debt restructuring (as a % of GDP)



Source: Ministry of Finance of Sri Lanka, Annual Report,[9] and author's calculations.

The political impact

Politically, the current crisis is characterised above all by a worrying increase in authoritarian repression. Despite surviving the civil war, Sri Lanka's electoral democracy now faces a serious challenge with authoritarian measures including the postponement of local government elections claiming lack of funds for elections.

Sri Lanka's current parliament lacks legitimacy after the great revolt threw out the last president Gotabaya Rajapaksain in 2022. At the head of the government is now a president, Ranil Wickremesinghe, who was not elected by the people, but by a parliament in which the people have little faith.[11] Moreover, as mentioned in the national budget for 2024, the Government seeks to enact or amend sixty new laws, with this illegitimate parliament, even as elections are due in autumn 2024. Many of these new laws, including for fiscal management, central banking, commercial banks, utilities, public private partnerships, are part of the "structural benchmarks" of the IMF programme. These are furthermore supported by the World Bank, which is involved in development and implementation.

Scores of other laws and amendments proposed by the Government relate to anti-terrorism, curbing freedom such as of free speech, privatising higher education, dispossessing fisheries livelihoods, etc. For instance, the draft bill on anti-terrorism foresees a very broad definition of "terrorism" and gives heavy powers to senior police officers to detain people. The draft of the "Online Safety Bill" plans to set up an Online Safety Commission and very vaguely and overbroadly formulates the wording of conduct designated as punishable offences.[12] This will restrict the democratic space to both resist authoritarianism and demand economic justice including of trade unions, student organisations and other social movements. While the IMF programme sets the conditions for economic policies, the Government is focused on repression necessary to attack resistance against the above-mentioned economic policies.

Protests on 28 August 2023 in the Sri Lankan capital Colombo: People protest against cuts to pension funds due to domestic debt restructuring.

Picture: Madhulika Gunawardena

It is to be feared that minorities will once again be made scapegoats for the current grievances and that fascist tendencies will gain strength.

Furthermore, all these laws are being rushed through a parliament that is likely to be washed out in the elections. This agenda of railroading through a neoliberal and repressive legal regime is likely to create constitutional crises in the years ahead as governments with new mandates are voted into power.

Such undemocratic measures are also linked to ethnic and religious polarisation, which the government and other nationalist forces are using to distract attention from the economic crisis. In light of Sri Lanka's long and troubled past of ethnic polarisation, it is to be feared that minorities will once again be made scapegoats for the current grievances and that fascist tendencies will gain strength. However, Sri Lanka has a long democratic tradition as the first country to gain universal suffrage in Asia without even a single successful military coup. In this context, the unprecedented debt crisis is again testing the democratic body politic. Its survival now depends on whether social institutions such as trade unions and civil movements manage to enforce the protection of rights and freedoms, even if the country faces major political upheavals in the years ahead.

International implications

Sri Lanka, for better or worse, has been a harbinger of political economic changes in the Global South. It was the first country in Asia to gain universal suffrage and mature into an electoral democracy. It was also one of the early welfare states in the developing world achieving significant advances in HDIs. However, it was also the first country in South Asia to go through liberalisation with the Structural Adjustment Programs of the IMF and World Bank in the late 1970s. In this context, it is again considered the canary in the coalmine of the debt crisis today.

The current economic experimentation in Sri Lanka with the IMF programme and debt restructuring is already devastating its working people and provides lessons for other countries on the brink of external debt default in the Global South. Indeed, Sri Lanka's escalation of debt problems with commercial borrowings in the international capital markets and its prolonged crisis and inability to resolve this crisis reflect a broken global financial system.

Sri Lanka has always been a harbinger of political and economic changes in the Global South.

In debt distressed countries like Sri Lanka, geopolitical maneuvers are creating additional complexity. While Sri Lanka is yet to restructure its debt, there are already investments coming from China and India, as they try to stake their claim in Sri Lanka with a view towards grabbing strategic assets such as ports, power generation, fuel supply and financial businesses. Such geopolitical moves can have an excessive influence on the debt restructuring process adding further challenges to debt resolution. Lessons from Sri Lanka's own past, as with many such postcolonial countries, do not bode well for a history where economic problems and geopolitical tension led to not just the emergence of authoritarian regimes, but also proxy wars that tore apart societies.

Concluding questions

At the heart of the predicament of Sri Lanka's debt crisis are questions about the future of development financing and a fair solution to debt problems.

It can be argued that if Sri Lanka did not follow the path prescribed by the IMF, and instead took a more forceful stance towards its external creditors, it may have achieved more in terms of debt relief. After all, there was hardly any significant bridging finance after the default from the donors as claimed by the proponents of the IMF programme. Instead, Sri Lanka's import bill continues to be largely financed by its own foreign revenues. A paper on Sri Lanka's debt crisis[13] argues that progressive international precedents of debt forgiveness should be looked to in order to address this crisis. The authors refer to the elimination of close to half of West Germany's massive debt overhang with the far-reaching London Debt Agreement of 1953, which, because of unprecedented elements in the agreement, created the fundamentals for economic growth, public investment and social spending. The London Debt Agreement has set the precedent for prioritising a country's future economic prospects, not the creditors' interests of maximum profit at the expense of the economic, social and political fabric of the country. Sri Lanka's debt resolution and economic future may also set international precedents – for better or worse.

Lessons from Sri Lanka's past do not bode well.

When it comes to the roots of the crisis, commercial borrowing for development promoted for countries like Sri Lanka has only pushed them into unsustainable debt. What then are the alternative sources of external development financing? This is going to be the major question as the crisis-prone architecture of international finance is redesigned to provide sustainable development financing for the Global South.

Next, the role of the IMF as an "arbiter" in debt restructuring should also be questioned. The IMF has proven to be resistant to change and only seems to aggravate crises as in the case of Sri Lanka. Instead of the IMF, the United Nations could take over the task and mediate in debt restructuring. This would also address the contradiction and conflict of interest of the IMF as both a lender and an arbiter of debt restructuring.

Finally, the question arises as to how development financing can be structured in such a way that countries retain sufficient autonomy to drive development in the interests of their own citizenry. From the case of Sri Lanka, it is becoming increasingly clear that it is necessary to create room for industrial policies particularly for the local markets and to consider policies of self-sufficiency in food and essentials where possible to weather external shocks without sacrificing the basic needs of its people.

The widespread and ongoing debt crisis today is a wakeup call – not just for the people in Sri Lanka who are struggling to survive amidst the worst economic crisis since the Great Depression. But also for the international community to finally and fundamentally rethink the international financial system that was created in the aftermath of the Great Depression.

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Sri Lanka's debt resolution and economic future may also set international precedents – for better or worse.

Severe destruction after a tropical storm in 2018:
As an island nation, Sri Lanka also faces major financial challenges when it comes to coping with climate damage.

Picture: Thomas Kuller

1 Reuters (08/09/2022): 'No kerosene, no food, Sri Lanka's fishermen say'.

2 On the development of revenue and expenditure, see Central Bank of Sri Lanka (undated): 'Summary of Government Fiscal Operations (1990 to the latest)'.

3 See Daily FT (28/11/2023): 'Budget 2024 and the working people'.

4 Calculation by the author and his team based on fees between September 2022 and September 2023.

5 See The Sunday Times (12/11/2023): 'CEB disconnects electricity to over 500,000 defaulters'.

6 See UNDP (2023): 'Understanding Multidimensional Vulnerabilities: Impact on People of Sri Lanka A Policy Report Based on the Multidimensional Vulnerability Index derived from UNDP's National Citizen Survey 2022-2023', and UNICEF (2023): 'Sri Lanka Economic Crisis 2023 Situation Report No. 1'.

7 The target cash transfer assistance relates to programmes in support of selected low-income households, elderly people, disabled people and people with chronic kidney disease.

8 See a detailed account in Kadirgamar, N.; Feminist Collective for Economic Justice: 'Targeting social assistance in the context of crises and austerity: the case of Sri Lanka', Expert Paper UN Women and International Labour Organization, EGM/WS2024/EP.8.

9 Ministry of Finance Sri Lanka, Annual Report, 2023.

10 See Reuters (18/01/2024): 'Sri Lanka to continue drug crackdown despite rights group concerns – minister'.

11 On the question of the effects of a lack of legitimacy despite legality, see Daily Mirror (01/08/2022): 'Abyss between Legality and Legitimacy'.

12 See for more assessment ICJ (29/09/2023): 'Sri Lanka: Proposed Online Safety Bill would be an assault on freedom of expression, opinion, and information'.

13 See Chandrasekhar C. P., Ghosh, J. and Das, D. (2023): 'Paying with Austerity: The Debt Crisis and Restructuring in Sri Lanka', Working Paper.

The widespread and ongoing debt crisis today is a wakeup call for the international community to finally and fundamentally rethink the international financial system.

LIST OF ABBREVIATIONS

AfDB	–	African Development Bank
BMF	–	German Federal Ministry of Finance (Bundesministerium der Finanzen)
BMZ	–	German Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung)
bn.	–	billion
COP	–	UN Climate Change Conference / Conference of the Parties
DSSI	–	Debt Service Suspension Initiative
EBRD	–	European Bank for Reconstruction and Development
EIB	–	European Investment Bank
EU	–	European Union
EURODAD	–	European Network on Debt and Development
FfD4	–	Fourth International Conference on Financing for Development
G20	–	Group of 20
G7	–	Group of 7
GDP	–	Gross domestic product
GNI	–	Gross national income
HIPC	–	Heavily Indebted Poor Countries
IADB	–	Inter-American Development Bank
IDA	–	International Development Association
IMF	–	International Monetary Fund
n. a.	–	no data available
SDGs	–	Sustainable Development Goals
SDR	–	Special Drawing Rights
UK	–	United Kingdom
UNCTAD	–	United Nations Conference on Trade and Development
UN	–	United Nations
USD	–	US-Dollar
V20	–	Vulnerable 20

Tab. 1: Countries at risk of over-indebtedness worldwide

countries by region \ indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross national income	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
South Asia, Southeast Asia, Pacific	(non-critical: Brunei Darussalam, Nauru, Vietnam; no data available: North Korea)										
Afghanistan*	n. a.		n. a.		n. a.		n. a.		n. a.		
Bangladesh*	37.9	▲	425.2	—	20.0	—	161.2	▲	32.1	—	
Bhutan*	127.3	▲	468.5	—	108.5**	—	363.0	—	14.5	▲	
Cambodia*	*34.8*	▲	*145.3*	▲	79.0	▲	87.0	▲	9.7	▲	
China, People's Republic	77.0	▲	297.4	▲	13.4	—	61.2	▼	11.0	▲	
Fiji*	91.0	▲	426.2	▲	54.2	▲	104.2	▲	7.1	—	
India	*81.0*	—	*417.9*	—	18.8	—	77.6	▼	8.1	▼	
Indonesia	40.1	▲	264.1	▲	30.9	▼	122.6	▼	21.7	▼	
Kiribati*	*15.2*	▼	*16.7*	—	9.2	▼	*29.1*	▲	*2.0*	▲	
Laos*	*128.5*	▲	*862.6*	▲	126.6	▲	215.0	▼	13.1	—	
Malaysia	65.6	▲	337.0	▲	66.1	—	81.0	▼	10.1	—	
Maldives*	*114.4*	▲	386.9	▲	71.7	▲	78.7	▲	13.5	▲	
Marshall Islands*	19.2	▼	29.0	▼	22.1	—	56.2	▼	5.2	▼	
Micronesia*	*14.0*	▼	*21.2*	▼	14.4	▼	50.3	▼	1.7	▼	
Mongolia*	76.3	—	222.0	▼	229.1	—	297.9	▼	28.6	▼	
Myanmar*	*60.0*	▲	*452.8*	▲	21.6	▲	95.2	▲	7.2	▲	
Nepal*	43.1	▲	186.3	▲	22.3	▲	276.8	▲	10.6	▲	
Pakistan*	76.2	—	628.6	—	34.2	—	320.2	—	42.0	▲	
Palau	68.4	▲	117.5	▲	*66.2***	▲	*349.6*	▲	*22.0*		
Papua New Guinea*	48.8	▲	289.6	▲	63.6	▼	128.4	▼	30.6	▲	
Philippines	57.5	▲	281.7	▲	26.0	▲	99.3	▲	8.0	▼	
Solomon Islands*	16.9	▲	57.5	▲	31.3	▲	105.1	▲	2.5	—	
Samoa*	43.7	—	113.5	▼	56.8	▲	245.0	▲	20.5	▲	
Sri Lanka	*115.5*	▲	*1,386.3*	▲	81.0	▲	357.6	▲	19.1	▼	
Thailand	60.5	▲	301.8	▲	39.9	▲	56.5	—	12.9	▲	
Timor-Leste*	5.6	▼	28.4	▲	9.2	▲	12.0	▼	0.6	▲	
Tonga*	*45.4*	—	*100.2*	—	39.4**	▲	214.7	▲	11.3	▲	
Tuvalu*	10.1	▼	7.9	▼	5.1	▼	9.7	—	1.4	▲	
Vanuatu*	*42.7*	—	*120.2*	▲	42.9	—	139.2	▲	6.8	▲	
Sub-Saharan Africa	(non-critical: Botswana, Equatorial Guinea, Eswatini, Somalia[3]; no data available: Eritrea)										
Angola*	66.7	▼	287.1	▼	60.9	▼	119.5	▼	30.5	—	
Benin*	54.2	▲	378.7	▲	42.4	▲	176.9	▲	11.6	▼	
Burkina Faso*	*58.3*	▲	*269.3*	▲	58.4	—	184.2	—	9.7	▼	
Burundi*	68.4	▲	256.1	—	30.9	▲	309.8	▲	10.7	▼	
Cabo Verde*	*127.3*	▲	*583.6*	▲	88.0	—	228.4	▲	11.1	▲	
Cameroon*	45.5	—	284.2	—	34.5	—	169.8	—	20.5	▲	
Central African Republic*	*51.8*	—	*421.4*	▲	40.6	▲	287.7		5.6		
Chad*	*48.8*	—	*203.8*	▼	*27.7*	—	61.0		4.3		
Comoros*	*27.9*	▲	*196.0*	▲	29.5	▲	209.8	▲	2.7	▼	
Congo, Democratic Republic*	14.5	—	87.4	▼	15.0	▼	35.6	▼	2.5	▼	
Congo, Republic*	*92.5*	▲	*290.9*	—	58.1	▼	67.2	▼	7.1	▲	
Côte d'Ivoire*	56.8	▲	370.8	▲	47.1	▲	184.7	▲	12.1	▼	
Djibouti*	40.4	—	213.4	▲	91.9	—	64.8	▲	1.6	—	
Ethiopia*	46.4	▼	543.6	▲	22.7	▼	260.1	▼	18.4	▼	
Gabon	*57.7*	—	*318.7*	—	41.8	▼	n. a.		4.3	▼	
Gambia, The*	82.8	—	476.8	▲	50.5	▲	430.8	▲	14.2	▲	
Ghana*	92.4	▲	583.2	▲	62.7	▲	168.6	▲	11.9	▼	

Tab. 1 continued: Countries at risk of over-indebtedness worldwide

indicator / countries by region	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
Guinea*	*33.1*	▼	*250.4*	—	26.1	—	55.2	▼	2.7	—	
Guinea-Bissau*	80.3	▲	526.9	▲	61.7	▲	405.6	▲	27.0	▲	
Kenya*	68.4	▲	398.2	▲	37.2	—	299.0	—	24.0	▼	
Lesotho*	59.9	—	144.6	▲	60.3	—	108.5	▲	18.0	▲	
Liberia*	*53.9*	▲	*249.6*	▲	50.7	▲	153.5	▼	6.4	—	
Madagascar*	55.1	▲	505.1	▲	40.9	▲	125.3	▲	4.5	▲	
Malawi*	75.2	▲	433.9	▲	25.8	▲	285.3	▲	11.6	▲	
Mali*	51.7	▲	261.1	▲	35.1	▲	116.0	—	5.7	▲	
Mauritania*	*50.8*	—	*205.4*	▼	43.6	▼	101.6	▼	12.5	▼	
Mauritius	83.1	—	350.6	—	131.8	▲	146.4	▲	7.6	▼	
Mozambique*	95.5	—	350.1	—	373.8	—	666.7	▼	62.9	▲	
Namibia	69.8	▲	233.0	▲	72.7	—	192.2	—	n. a.		
Niger*	*50.3*	▲	*339.8*	▲	38.5	▲	349.2	▲	18.0	▲	
Nigeria*	39.6	▲	451.1	▲	21.4	▲	139.0	▲	10.6	—	
Rwanda*	*61.1*	▲	*255.4*	▲	69.6	▲	302.7	▲	17.1	▲	
São Tomé and Príncipe*	*77.7*	▼	*306.1*	▼	71.1	—	352.4	—	7.2	▼	
Senegal*	*76.6*	▲	*384.2*	▲	119.2	▲	466.7	▲	28.2	▲	
Seychelles	*61.5*	▲	*197.1*	▲	286.4	—	241.3	▼	n. a.		
Sierra Leone*	95.8	▲	497.0	▲	59.6	▲	184.9	▼	8.8	▼	
South Africa	71.1	▲	256.3	▲	43.3	▼	116.7	▼	18.5	—	
South Sudan*	*37.8*	▼	*123.3*	▲	*41.1***	—	*60.5*	—	*16.3*	▼	
Sudan	*186.2*	—	*1,227.2*	▼	44.2	▼	351.9	▼	2.9	▼	
Tanzania*	*42.3*	—	*290.6*	—	30.0	—	176.6	—	12.6	—	
Togo*	66.3	▲	375.4	▲	38.3	▲	156.4	▲	12.0	▲	
Uganda*	48.4	▲	345.6	▲	46.3	▲	340.6	▲	15.5	▲	
Zambia*	98.5	—	493.5	—	105.8	—	247.8	▼	18.2	▼	
Zimbabwe	98.4	▲	*590.9*	▼	68.5	▲	184.5	▼	5.0	▼	
Latin America, Caribbean							(non-critical: Peru; no data available: Cuba)				
Antigua and Barbuda	86.2	—	427.8	—	*51.6*	▲	n. a.		*10.9*	▲	
Argentina	84.7	—	253.4	—	39.9	▼	232.5	▼	31.8	▼	
Bahamas	88.9	▲	421.2	▲	39.7	▲	110.1	▲	18.4	▲	
Barbados	122.5	—	413.0	—	47.0		138.6		24.6		
Belize	63.4	▼	290.2	—	54.5	▼	108.1	▼	5.7	▼	
Bolivia	80.0	▲	282.0	▲	38.1	—	109.5	▼	16.5	▲	
Brazil	85.3	—	197.2	—	31.1	—	137.6	▼	29.9	▼	
Chile	38.0	▲	135.0	▲	*83.1*	▲	n. a.		n. a.		
Colombia	60.4	▲	216.7	▲	55.7	▲	229.8	—	33.9	—	
Costa Rica	63.8	▲	384.4	—	55.8	—	124.8	—	0.8	▼	
Dominica*	98.5	—	228.4	—	65.6	▲	200.0	▲	15.0	▲	
Dominican Republic	59.5	▲	390.1	—	44.2	—	185.3	▲	13.8	▼	
Ecuador	57.7	▲	146.5	—	53.5	—	167.9	▼	14.5	▼	
El Salvador	75.1	—	291.2	—	69.6	—	203.9	—	32.0	▼	
Grenada*	63.6	—	191.7	▼	57.1	▲	80.1	—	6.2	▼	
Guatemala	29.2	▲	230.9	—	26.8	▼	130.2	▼	27.4	▲	
Guyana*	*26.1*	▼	*169.5*	—	11.3	▼	13.0	▼	0.8	▼	
Haiti*	23.9	—	383.5	▲	12.6	▼	185.0	▲	3.4	▲	
Honduras*	49.1	▲	192.7	▲	43.2	—	132.7	—	15.5	▲	
Jamaica	77.1	▼	256.3	▼	105.7	—	255.2	—	20.2	▼	

Tab. 1 continued: Countries at risk of over-indebtedness worldwide

indicator / countries by region	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross national income	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earningsn	trend[1]	risk of debt distress according to IMF[2]
Mexico	54.1	—	223.4	—	43.4	▼	93.1	▼	7.7	▼	
Nicaragua*	43.9	—	150.1	—	102.2	—	186.2	▼	30.2	—	
Panama	53.7	▲	309.5	▲	177.3	—	*378.6*	—	157.4	—	
Paraguay	40.8	▲	205.3	▲	60.4	▲	161.8	▲	14.2	▲	
St. Kitts and Nevis	61.1	▲	117.6	▼	8.8	▼	20.8	▼	3.0	—	
St. Lucia*	74.2	▲	340.1	▲	45.7	▲	72.0	▲	4.1	—	
St. Vincent and the Grenadines*	87.9	▲	318.4	▲	62.7	▲	217.5	▲	13.5	▲	
Suriname	*120.1*	▲	*432.3*	—	127.4	▲	161.1	—	13.5	▼	
Trinidad and Tobago	51.0	—	183.4	—	18.3	▼	27.4	▼	38.3	▼	
Uruguay	59.3	—	217.7	—	85.7	▲	245.7	—	53.7	▼	
Venezuela	*159.5*	▼	*2,674.3*	▲	n. a.		n. a.		n. a.		
North Africa, Middle East (non-critical: Iraq, Kuwait, Oman, Palestinian territories, Qatar, Saudi Arabia; no data available: Libya, Syria)											
Algeria	55.6	▲	162.7	▲	3.8	▲	10.2	▼	0.4	▼	
Bahrain	117.6	▲	509.1	▲	n. a.		n. a.		n. a.		
Egypt	88.5	▲	467.9	▲	35.4	—	210.5	—	23.2	▲	
Iran	*34.1*	▼	*417.1*	▼	2.6	▲	n. a.		0.3	▼	
Jordan	*94.1*	▲	*354.4*	▲	87.8	▲	192.4	—	21.4	▲	
Lebanon	*283.2*	▲	*4,465.4*	▲	391.0**	▲	513.6	▲	32.7	▼	
Morocco	71.5	▲	264.7	—	48.9	▲	109.1	▼	10.1	—	
Tunisia	79.8	▲	280.3	—	87.3	—	170.2	▼	17.8	—	
United Arab Emirates	31.1	▲	94.8	—	85.7	—	83.5	▼	n. a.		
Yemen*	66.0	▼	689.5	▼	n. a.		n. a.		n. a.		
Europe, Central Asia (non-critical: Azerbaijan, Kosovo, Turkmenistan)											
Albania	65.5	—	244.7	—	56.4	—	136.1	▼	9.5	▼	
Armenia	49.2	—	202.9	—	76.0	▼	141.3	▼	4.7	▼	
Belarus	41.3	—	128.4	▲	56.8	▼	83.1	▼	13.8	▲	
Bosnia and Herzegovina	29.7	—	74.6	—	52.9	▼	102.5	▼	11.3	—	
Georgia	39.8	—	148.0	—	104.1	—	162.7	—	21.9	—	
Kazakhstan	23.5	▲	107.9	—	83.4	▼	166.9	▼	45.6	—	
Kyrgyzstan*	49.2	—	134.8	▼	91.6	▼	265.4	—	22.1	▼	
Moldova*	32.6	▲	98.1	—	65.9	▲	161.1	▼	51.0	▲	
Montenegro	72.1	—	184.8	—	141.8	—	246.6	▼	28.1	▼	
North Macedonia	52.1	▲	170.2	▲	89.2	▲	112.4	—	9.1	—	
Russia	18.9	▲	54.5	▲	17.1	▼	55.4	▼	15.0	▼	
Serbia	53.5	—	123.4	—	75.8	—	114.4	▼	14.0	▼	
Tajikistan*	32.6	▼	117.6	▼	55.3	▼	121.5	▼	8.6	▼	
Turkey	31.7	—	120.0	▲	51.1	—	130.3	▼	19.7	▼	
Ukraine	78.5	▲	156.1	▲	82.5	—	199.2	▲	17.6	—	
Uzbekistan*	34.9	▲	113.1	—	60.4	▲	187.9	▲	27.8	▲	

[1] ▲ Increase of more than 10 percent compared to 2019; ▼ Decrease of more than 10 percent compared to 2019; — Stagnation (change of less than 10 percent)

[2] low risk of debt distress; moderate risk of debt distress; high risk of debt distress; In default;
No risk assessment by the IMF and World Bank; assessments older than 2020 were not included here.

[3] Somalia's foreign debt was almost completely canceled in 2023 as part of the HIPC initiative; the use of data with a cut-off date of 31/12/2022 would therefore give a distorted picture. The cut-off date of 31/12/2023 results in a non-critical assessment for Somalia.

* Countries are eligible for the G20 Common Framework for debt restructuring.
** External debt is stated in relation to gross domestic product instead of gross national income.

Values *in italics*: Forecasts made in reports from 2023 for 2022 (from IMF reports, the World Economic Outlook or national documents from central banks and finance ministries).

Sources: For all external debt data, mainly International Debt Statistics of the World Bank 2023, except where there have been IMF country reports from December 2023. For information on public debt indicators, generally World Economic Outlook of the IMF from October 2023. For individual countries for which no data is available from these two sources, either IMF country reports or sources from national central banks and finance ministries.

misereor
GEMEINSAM GLOBAL GERECHT

Misereor, the German Catholic Bishops' organisation for development cooperation, campaigns for justice and education and against hunger, diseases, marginalisation and human rights violations. Regardless of ethnicity, gender, colour, or religion, Misereor and its local partners champion those people who are denied the right to a life of dignity, freedom and sufficient and healthy nutrition. Since Misereor was established in 1958, over 114,000 projects have been sponsored in Africa and the Middle East, Asia and Oceania, Latin America and the Caribbean.

Misereor encourages individual initiative

Misereor projects help people help themselves, so that they do not end up depending permanently on support. For this reason, Misereor's project partners work, for example, to assist small-scale farmers, provide young people with training in future-oriented jobs, and support small businesses.

Misereor relies on partnerships

In its project activities, Misereor relies entirely on its local partners. These organisations, communities and self-help groups know the local situation best and enjoy the local people's trust. Together with the local people, our partners foster development at the local level while also receiving advice and financial support from Misereor.

Misereor appeals to the consciences of those in power

Misereor does not just fight poverty, hunger and injustice, but also their causes. As a political lobbying organisation for the disadvantaged, Misereor is critical of the prevailing global economic model, insists on more determined action against climate change, and denounces unjust social structures in the countries of the Global South.

Misereor depends on the commitment of many people

Misereor stands for active solidarity with those living in poverty. Committed individuals and groups, as well as parishes and institutions, organise solidarity marches, Lenten fasts and pilgrimages, support small-scale farmers by buying fairly-traded products, and promote development projects by making donations or gifts or leaving legacies.

www.misereor.org

erlassjahr.de
Entwicklung braucht Entschuldung

The German debt relief alliance 'erlassjahr.de – Entwicklung braucht Entschuldung e. V.' campaigns for a world where more importance is attached to the living conditions of people in indebted countries than to the servicing of sovereign debt.

erlassjahr.de is supported by more than 500 organisations from the church, politics and civil society across Germany, and forms part of a worldwide network of national and regional debt relief initiatives.

erlassjahr.de seeks to create a world in which:

- in future debt crises, lower-income countries can receive debt relief in a fair and transparent process – instead of continuing to be at the mercy of their creditors and dependent on their goodwill;
- foreign debt, which has arisen in breach of international legal standards and which prevents the achievement of internationally agreed development goals, is cancelled;
- standards of responsible lending and borrowing are developed and applied in order to codify the shared responsibility of creditors and debtors.

Active together

Campaigning for fair debt relief would not be possible without the support of our co-sponsoring organisations and many committed individuals.

Together, we are active for fair debt relief.

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