Global external debt burden

The specific vulnerability of countries in the Global South

By Malina Stutz

The public budgets of more than half of low- and middle-income countries are heavily or very heavily burdened by debt service obligations to external creditors. Furthermore, refinancing conditions are unfavourable, making it considerably more difficult or almost impossible for countries in the Global South to invest in public services, social infrastructure or climate and environmental protection measures.

The Global Sovereign Debt Monitor 2025 addresses the risk of an external public debt crisis. The first part of this report provides a quantitative analysis of current external public debt levels and trends at country level. The external public debt situation of each country worldwide is determined using three indicators, each of which relates public debt or public debt service to external creditors to an indicator of economic capacity. This analysis also takes into account the currency in which the debt to external creditors is denominated (see 'Methodology' box, p. 20-21).

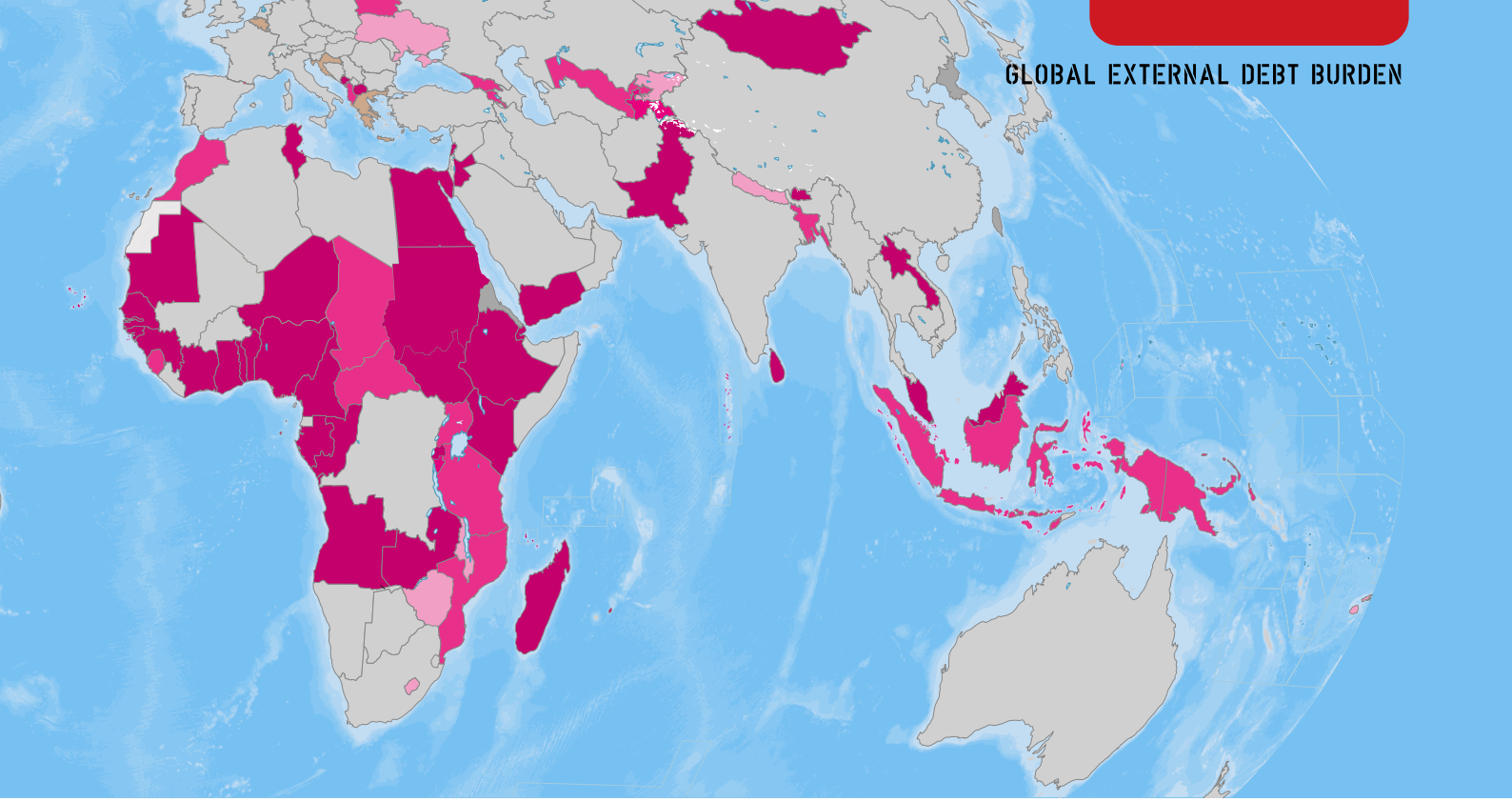
In the second section, the analysis is complemented by a qualitative assessment of global crisis dynamics. This is because the impact of high external debt on the population depends not only on a country's debt ratio, but also on other factors and global dynamics.

Section 1: Global external public debt burden

Of the 198 countries surveyed, the burden of external debt servicing on public finances is classified as very heavy in 47 countries and heavy in 28 countries. In a further 13 countries, no acute burden of external public debt can be identified, but a potential risk. Furthermore, in 97 countries, no risk can be identified. The situation is ambiguous in three countries. There is no data available to assess the external public debt situation in ten countries.[1]

1.1. Countries with very heavy debt burdens

The 47 countries classified as having **very heavy debt burdens** must, on average, allocate at least 15% of their government revenue to interest and principal repayments to external creditors over the next three years (2025–2027) (see Figure 2). In these cases, there is considerable pressure on the national budget due to external debt servicing. According to the World Bank, at least 231 million people – around 18% of the total population – live below the extreme poverty line in these 47 countries. This means that the rate of people affected by extreme poverty in these 47 countries is more than twice the global average. It is therefore particularly urgent in these countries to make comprehensive investments in public services, social security, healthcare, education



Box 1: Change in methodology in the Global Sovereign Debt Monitor 2025

The Global Sovereign Debt Monitor 2025 introduces two significant changes to the methodology used to determine the debt situation, which has remained largely unchanged since 2014. Firstly, developments in recent years have demonstrated the growing importance of clearly distinguishing between different types of debt crises. While most of the countries affected by the debt crises of the 1980s and 1990s were almost exclusively indebted to external creditors, domestic debt has also become increasingly prominent in countries of the Global South over the past two decades. Recent debt restructurings, for example in Sri Lanka and Ghana, highlight the importance of distinguishing between domestic and external debt. The annual analysis in the Global Sovereign Debt Monitor will therefore focus on the risks of external public debt crises (see Figure 1, p. 11). As actors in German civil society, we are focusing on this issue because we want to draw attention to debt crises for the resolution of which Germany, other (creditor) states and international actors bear joint responsibility – for example, by cancelling debt and supporting binding, transparent and fair multilateral restructuring procedures. This is particularly the case with external official debt crises.[2]

With the new methodology, we have deliberately chosen not to include indicators and thresholds for domestic public debt in the analysis. Domestic official debt can also be problematic, especially in countries with a weak currency in the Global South. However, decisions on how to deal with domestic debt crises should primarily be taken in national negotiations. If, on the other hand, domestic debt is assessed by foreign actors, this could legitimise international institutions such as the International Monetary Fund (IMF) to impose conditions on countries to reduce their domestic debt as a prerequisite for restructuring foreign debt.[3]

Secondly, the Global Sovereign Debt Monitor 2025 includes all countries worldwide for the first time.[4] In previous years, we excluded countries in the Global North from the analysis. This expansion aims to demonstrate that the Global North and Global South are not two homogeneous groups. Rather than making such a division, the analysis itself now shows that it is countries in the Global South that are particularly at risk of falling into an external debt crisis. Additionally, the structural causes explaining this vulnerability are identified.

Box 2: What is an public external debt crisis?

According to our understanding, a **debt crisis** is a situation in which a country's debt threatens to destabilise its economy and limit the government's ability to act, which puts the population's basic economic and social rights at risk. We define an **external public debt crisis** as a situation in which the public sector's debt to external creditors becomes such a crisis factor. The creditors can be both official and private.

This understanding differs significantly from that of the International Monetary Fund (IMF) and the major rating agencies, which focus primarily on the risk of default, i.e. the likelihood of creditors not receiving timely repayments.

With our standardised analysis of global external public debt and global crisis dynamics, we examine **risk factors** that contribute to a public external debt crisis. However, this is not a final assessment of whether a country is actually experiencing a debt crisis. A qualitative case-by-case analysis would be required to make such a statement. Specifically, a fair and transparent process should be used to assess whether a country is in a public external debt crisis and, if so, how much debt should be cancelled to resolve it. This process should take into account country-specific factors and involve the population of the country concerned.

and poverty reduction. However, the high interest and principal payments mean that there is very little financial leeway.

Combined with the currently very unfavourable refinancing conditions for countries in the Global South (see Section 2, page 17), achieving the Sustainable Development Goals (SDGs) is difficult, if not impossible, given such a large outflow of funds. While a final assessment would require a detailed case-by-case analysis, the interaction of these factors suggests that these 47 very heavily burdened countries are already experiencing a debt crisis, which threatens the fundamental social and economic rights of their populations (see Box 2).

Lebanon and **Laos** will have to spend an average of over 70% of their government revenues servicing debt to external creditors over the next three years. Both countries have already suspended their repayments as servicing such high debt is simply unmanageable. **Djibouti** and **Ethiopia** have also had to suspend most of their repayments to external creditors.

At present, **Laos** and **Djibouti** are in talks with China in particular – the main creditor of both countries – to adjust their payment obligations. **Lebanon**, which is primarily indebted to bondholders, applied to the IMF for a loan programme in March 2025, which is also likely to involve debt restructuring (see the article 'Creditors of countries in the Global South', page 23-24).

Ethiopia had already applied for debt restructuring under the G20 Common Framework in February 2021. It was agreed that debt servicing to bilateral official creditors would be suspended for 2023 and 2024.[5] However, no long-term debt restructuring has yet been concluded with either bilateral official or private creditors. The latter rejected the country's proposal to restructure their claims in October 2024.

Even in cases where debt restructuring has largely been completed, no sustainable solution has been achieved. In **Ghana, Sri Lanka, Suriname** and **Zambia**, public budgets are still heavily burdened by external debt servicing even after restructuring.

At least the debt restructuring, particularly in **Sri Lanka** and **Zambia**, has led to a noticeable short-term improvement in the burden, although it remains at a very heavy level. According to the original loan agreements, both countries would have had to spend more than 50% of their government revenue on debt servicing between 2024 and 2026. As a result of

Fig. 1: Types of debt crises

Although different debt crises often occur simultaneously in practice and influence each other, it is important to distinguish between four types of debt crises. In the Global Sovereign Debt Monitor, we focus primarily on identifying risks associated with public external debt crises.

These crises require an international, fair, transparent and legally binding process for restructuring and cancelling debt. Thus, other countries – including Germany – and international institutions have the greatest responsibility to contribute to a fair crisis resolution in these types of debt crises.

Further information: position paper by erlassjahr.de (forthcoming in 2025): 'What Role Should International Actors Play in Domestic vs. External Debt Crises?'.

restructuring, this obligation could be reduced to an estimated 33.7% in Sri Lanka and 15.2% in Zambia for the period between 2025 and 2027. However, the debt restructuring was accompanied by further problems, partly due to the associated economic policy conditions (see article 'New solutions – old habits?', from page 32).

In addition to Sri Lanka and Zambia, the external debt situation also improved in five other heavily indebted countries last year (see arrows on the world map at the beginning of this Global Sovereign Debt Monitor).

However, the development over the past year can be described as stable in 35 of the 47 countries. In five countries that are classified as having very heavy debt burden in this year's analysis, the external debt situation has deteriorated significantly compared with last year's analysis.[7] These include **Mongolia** and **Rwanda**, where average interest and principal repayment obligations were already just under 15% between 2024 and 2026 (14.8% in Mongolia and 13.2% in Rwanda). In both countries, these obligations increased further between 2025 and 2027, and now exceed 15% – the threshold at which the present analysis considers the burden to be very heavy.

1.2. Countries with heavy debt burdens

On average, the 28 countries classified as having **heavy debt burden** will have to pay between 10 and 15% of their government revenue to external creditors for debt servicing over the next three years.[8]

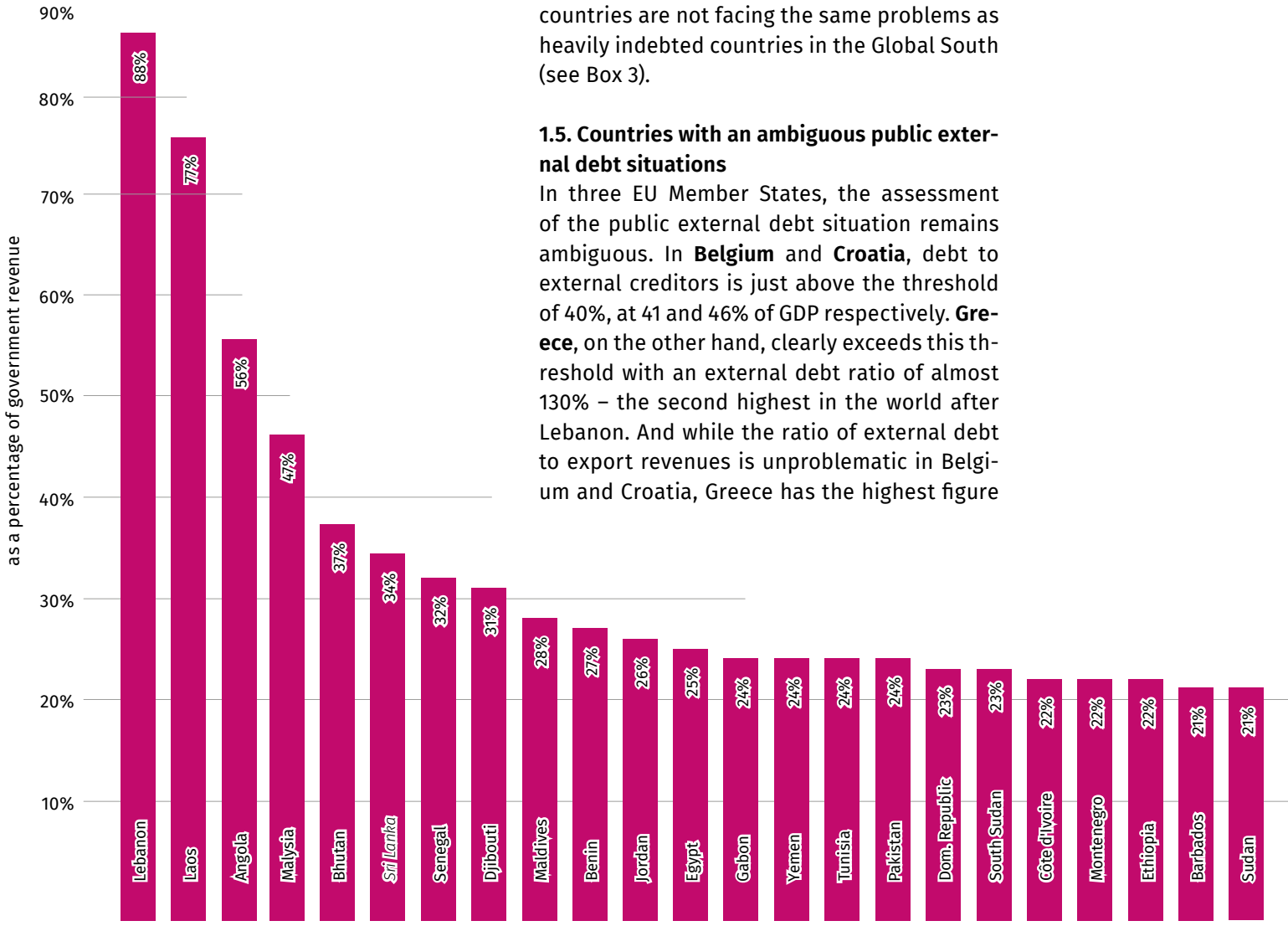
These countries are also facing acute pressure on their national budgets. For this reason, civil society actors,[9] among others, are calling for debt restructuring to be based on a benchmark of no more than 10% of government revenue, depending on the context and financing needs.

1.3. Countries without immediate debt burden, but with burden risks

The 13 countries for which no immediate debt burden but a **risk of burden** has been identified will spend less than 10% of their government revenue on debt servicing on average over the next three years.[10] However, their outstanding debt to external creditors remains high in relation to their gross domestic product and export revenue. It is therefore quite possible that these countries will face rising repayment obligations in the coming years and that their public finances will be subject to heavy or very heavy debt service burdens. Moreover, high levels of debt can already create real problems in the present. High debt can lead to poorer credit ratings and, as a result or independent-

ly of this, to less favourable refinancing conditions or a lower willingness to invest.
This group includes many small island states, including Antigua and Barbuda, Dominica, Fiji, Palau and Samoa. **Ukraine** is also among the countries identified as being at risk of debt distress. Although the extension of a moratorium by bilateral official creditors and debt restructuring with private creditors has reduced repayments due in the next three years in the short term (see 'New solutions – old habits?', from page 32), the ongoing war means that Ukraine's external debt-to-GDP ratio and export revenues continues to deteriorate.

Fig. 2: Average public external debt service of very heavily burdened countries in 2025-2027



1.4. Countries without risk

No risk of a public external debt crisis could be identified in 94 countries. In 90 of these countries, all three debt indicators for which data are available are below the critical threshold. Only four countries – Japan, Canada, the United Kingdom and the United States – have individual external debt indicators that exceed their respective thresholds.[11] However, this Global Sovereign Debt Monitor does not identify any risk of an external debt crisis for these countries, since they are hard currency countries and most of their external debt is denominated in their respective national currencies. The United Kingdom, the United States and Japan make repayments to external creditors exclusively in their own currency. In Canada, an estimated three-quarters of outstanding debt to external creditors is also denominated in Canadian dollars. Therefore, even though they have comparatively high external debt, these countries are not facing the same problems as heavily indebted countries in the Global South (see Box 3).

1.5. Countries with an ambiguous public external debt situations

In three EU Member States, the assessment of the public external debt situation remains ambiguous. In **Belgium** and **Croatia**, debt to external creditors is just above the threshold of 40%, at 41 and 46% of GDP respectively. **Greece**, on the other hand, clearly exceeds this threshold with an external debt ratio of almost 130% – the second highest in the world after Lebanon. And while the ratio of external debt to export revenues is unproblematic in Belgium and Croatia, Greece has the highest figure

Box 3: There is debt – and then there is debt

Seven countries in the Global North (Belgium, Canada, Croatia, Greece, Japan, the United Kingdom and the United States) have similarly high foreign debt indicators in countries of the Global South that are classified as heavily or very heavily burdened. However, these countries do not face the same problems.

This can be explained, among other things, by the fact that their outstanding liabilities are denominated entirely or predominantly in their own currencies, which do not generate the same export pressure as foreign currency debt.

In addition, countries whose external debt is denominated in foreign currency are more vulnerable to exchange rate fluctuations. A devaluation of their national currency increases the burden on their national budget, as debt servicing must be carried out in foreign currency.[12] Conversely, if the debt is denominated in the debtor country's currency, the creditors bear the exchange rate risk. A devaluation of the debtor country's currency does not place an additional burden on the national budget; moreover, it reduces the real value of the repayments for the creditors.

Since the seven aforementioned countries' currencies are hard currencies – with the US dollar still at the top of the international currency hierarchy – they have broad monetary policy options for refinancing their sovereign debt.[13]

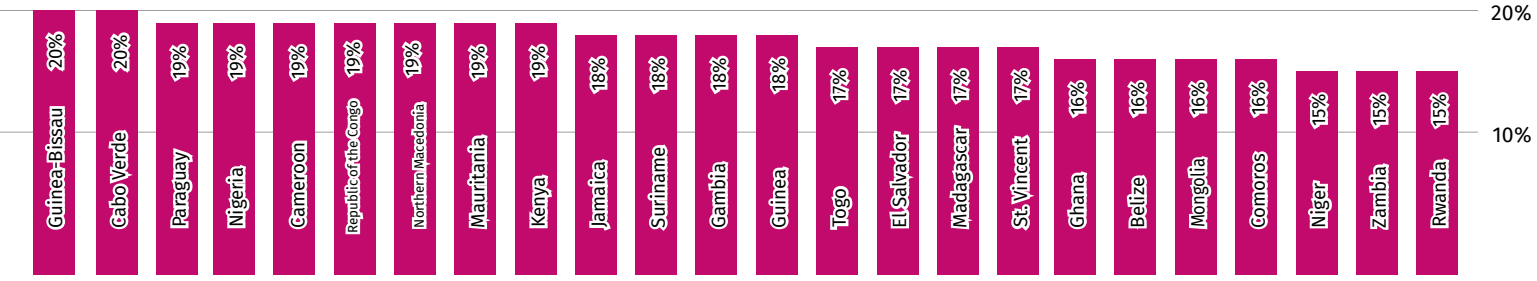
For these reasons, when assessing the public external debt situation, consideration is also given to the currency in which liabilities to external creditors are denominated, as well as the position of the national currency in the international currency hierarchy – i.e. whether it is a hard or weak currency.

in the world at over 430%.
As the outstanding liabilities in Belgium and Greece are denominated entirely in euro, and around 95% of those in Croatia are also denominated in euro, external debt does not present the same challenges for these countries as it does for those in the Global South (see Box 3). However, the rules of the European Monetary Union significantly restrict individual eurozone member states' political scope to pursue their own monetary policy. This may mean that individual member states will be forced to resort to debt restructuring in the future, even though they are indebted in their own currency and the euro is a hard currency. Based on the analysed indicators, Greece is most likely to be affected, although the stable prices at which Greek bonds are currently trading on the secondary markets do not indicate any immediate risk. Due to these unique circumstances, the external debt situation of these three countries is described as ambiguous.

1.6. Public external debt by world region

According to the present analysis, around 40% of countries worldwide have a heavy or very heavy debt burden (see Figure 3). Countries in **sub-Saharan Africa** are particularly badly affected: around 70%, or 34 out of 49 countries

Note: The chart shows the debt service to external creditors as provided for in loan agreements or debt rescheduling agreements - regardless of whether the payments are actually being made. The countries Lebanon, Laos, Djibouti and Ethiopia are known to have largely ceased repayments. The figures for the countries in italics are based on our own estimates.
Source: Own presentation based on data from the World Bank's International Debt Statistics (2024) and IMF country reports.



in this region, have a heavy or very heavy debt burden. Only 11 countries in sub-Saharan Africa are not considered to be at risk in terms of public external debt. These include **Botswana**, which has never experienced external debt problems since gaining independence, and **Somalia**, whose external debt was extensively cancelled in 2023 as one of the last countries to benefit from the HIPC Initiative.[14] Between 2025 and 2027, five of the 11 countries (**Eswatini, Mali, Seychelles, Somalia, South Africa**) will have to pay an average of over 9% of their government revenue to external creditors, which is just below the 10% threshold considered to be a heavy burden.

In **South and Central America**, around half of all countries are heavily or very heavily burdened by debt servicing obligations to external creditors. In addition to Suriname, which even after debt restructuring still has to spend around 18% of its public revenue on external debt servicing, seven other countries are very heavily burdened. These include **Belize, Barbados, the Dominican Republic, Jamaica, Paraguay, El Salvador** and **St. Vincent and the Grenadines**.

In **South Asia and Southeast Asia**, around 42% of the countries surveyed are heavily or very heavily burdened. All six countries with very heavy debt burdens will have to make unusually high debt service payments averaging over 20% over the next three years. These include **Pakistan**, which has long avoided restructuring only by repeatedly securing new bridging loans, including from the IMF (see 'New solutions – old habits?', from page 32).

In **Southwest Asia and North Africa** (referred to as the Middle East in previous Global Sovereign Debt Monitors) and in **Central and East Asia**, around 30% of the countries surveyed are heavily or very heavily burdened.

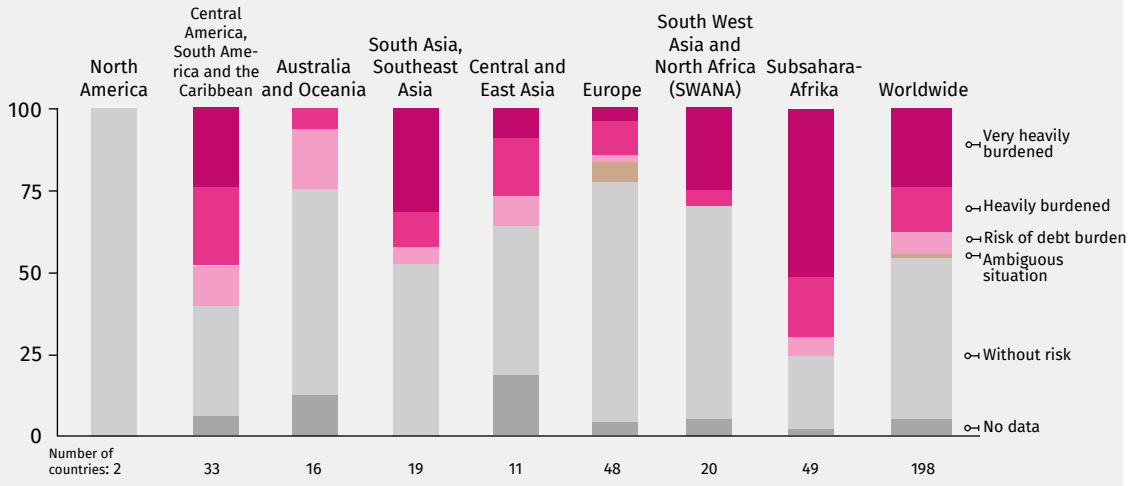
In **North America**, no risk of an external public debt crisis can be identified for the United States and Canada. In Europe, the situation can be assessed as non-critical in a good 70% or 35 of the 48 countries surveyed. These include all EU Member States except Greece, Croatia and Belgium. **North Macedonia** and **Montenegro** are the only countries in Europe that are rated as very heavily burdened.

In **Australia and Oceania**, no risk can be identified for more than half of the countries surveyed. **Papua New Guinea's** national budget is heavily burdened by external debt servicing, and a risk of burden can be identified for the three island states of **Fiji, Palau** and **Samoa**. In **Palau** in particular, external debt is already very high in relation to GDP and export revenues.

1.7. External official debt by income category

Examining the burden according to the World Bank's income categories reveals that **high-in-**

Fig. 3: Public external debt by world region (in %)



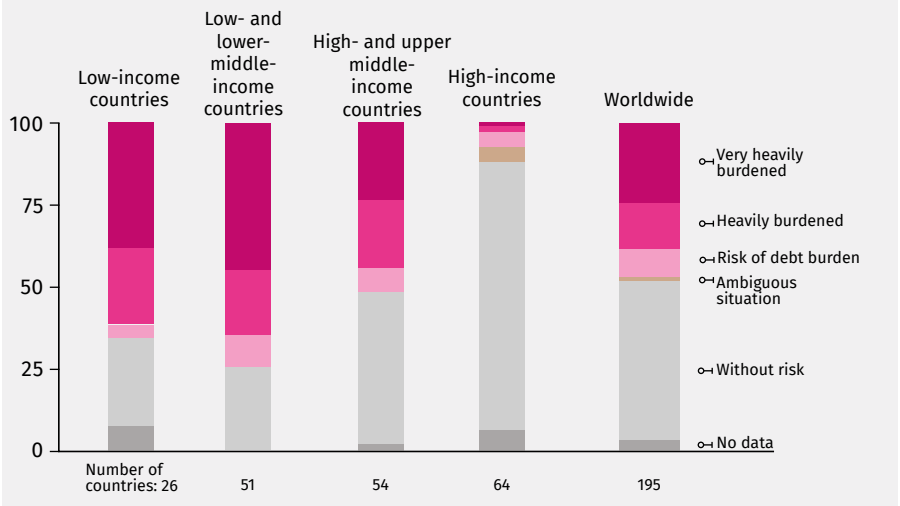
come countries almost always remain immune to external public debt crises (see Figure 4). The few high-income countries that deviate from this pattern tend to be small island and low-lying coastal states. The World Bank classifies these countries as high-income due to their relatively small populations and comparatively high revenues from tourism, offshore services or trade in natural resources. However, their dependence on a few sectors and their vulnerability to external shocks such as natural disasters make them particularly vulnerable. **Barbados**, is the only high-income country where external debt servicing places a very heavy burden on the national budget. In **Antigua and Barbuda, Panama** and **Palau**, a risk of burden can be identified.

Apart from the island and coastal states mentioned above, **Andorra** is the only high-income country classified as having a heavy debt burden. Over the next three years, the country will have to spend an average of 12.7% of its government revenue on interest and principal payments to external creditors. This is almost entirely due to a EUR 500 million bond maturing in 2027, which represents more than 30% of Andorra's expected government revenue this year. The bond bears interest at 1.25%, which is well below Andorra's average growth rate. Andorra's total external public debt is denominated in euro. Although Andorra uses the euro as its national currency, we classify it as a foreign currency for Andorra according to the methodology used in this Global Sovereign Debt Monitor, as the country is not a member of the European Monetary Union and therefore has no influence on the monetary policy of the euro area; should refinancing become a problem, Andorra would have no sovereign monetary policy options to facilitate refinancing. However, Andorra's government bonds are currently trading at favourable prices, suggesting that Andorra is unlikely to have any difficulty refinancing the maturing bond by borrowing again at continued low interest rates. Although Andorra is classified as heavily burdened according to the standardised methodology, a more detailed analysis reveals no signs of an impending external debt crisis.

It is **low-income** and **lower-middle-income countries** that are most at risk of falling into an external debt crisis. The government revenues of more than 60% of these countries are heavily or very heavily burdened by interest and principal payments to external creditors. In both groups of countries, fewer than a quarter can be identified as not at risk of falling into an external debt crisis.

However, **high middle-income countries** should not be overlooked, as almost half of these countries are also classified as having heavy or very heavy debt burden. This includes a particularly large number of countries in Central and South America, such as **Belize**, **Paraguay** and **El Sal-**

Fig. 4: Public external debt by income category (in %)



Source for Figs. 3 and 4: Own presentation and analysis according to the methodology described on pages 20-21. Data based on the World Bank's *International Debt Statistics* (2024), IMF data and data from national finance ministries and central banks.

vador (very heavy debt burden) and C**olombia, Costa Rica** and **Ecuador** (heavy debt burden).

1.8. The specific vulnerability of countries in the Global South

The analysis clearly shows that countries in the Global South are particularly at risk of falling into an external public debt crisis. However, this is not because countries in the Global South are taking on more debt – and supposedly acting more irresponsibly – than countries in the Global North.

As Figure 5 illustrates, the average public debt in countries in the Global North exceeds 70% of GDP, whereas in countries in the Global South it stands at just under 60%.[15] In the Global North, however, almost 70% of outstanding public debt is held by citizens and (financial) institutions within the country. Repayments therefore remain within the country, meaning that funds are more likely to be spent and taxed domestically in the future, with no transfer of wealth to other countries taking place. In addition, debtor nations have more extensive options for persuading domestic creditors to refinance their debts when they fall due. Apart from monetary policy options, which are discussed below, these include regulatory provisions that encourage domestic financial institutions to hold government bonds. In countries of the Global South, however, only around 40% of outstanding public debt is held domestically on average, resulting in a disproportionately high transfer of wealth abroad and making refinancing more difficult.

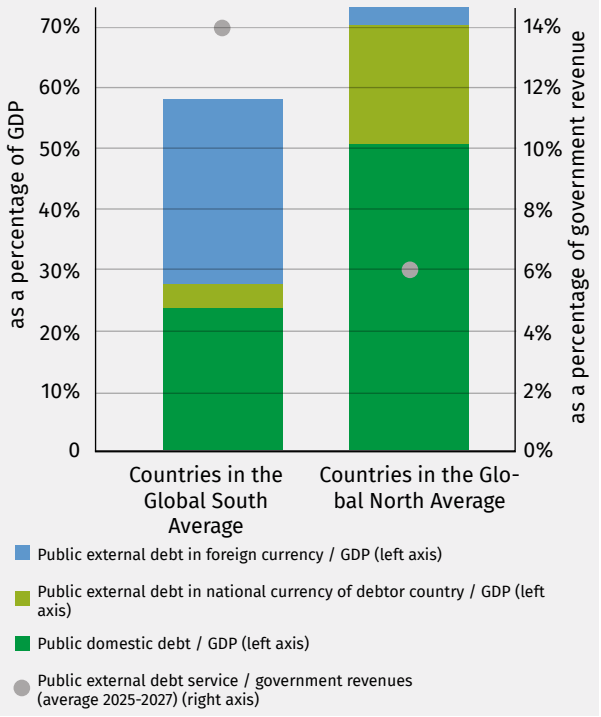
Further, in countries of the Global North, the majority of debt held by external actors is denominated in the debtor nation's currency. In countries of the Global South, however, almost 90% of external debt is denominated in foreign currency – particularly in US dollars. This results in pressure to increase export earnings as one of the major counter-financing sources. Debtor nations also bear the exchange rate risk and their central banks cannot act as "lenders of last resort" or indirectly facilitate the refinancing of government debt through monetary policy measures (see Box 3, on page 13).[16]

Section 2: Global crisis dynamics

The previous section analysed the burden of external debt on public budgets. However, it depends on more than just the debt burden, whether an external public debt crisis will occur. In addition to country-specific aspects, global dynamics play a particularly decisive role: history has shown time and again that payments to official creditors have been suspended in recurring cycles over the past 200 years.[17] These cycles are largely determined by dynamics in the Global North – or the economic centres of the particular era. Interest rates and commodity prices, and thus investors' interest in exporting capital to the periphery, play a particularly important role here.

Following the credit boom of the early 2010s, refinancing options for countries in the Global South deteriorated further with the collapse of commodity prices in 2015, and then noticeably amid multiple crises from 2020 onwards.
The interest rate turnaround initiated by the US

Fig. 5: The specific vulnerability of countries in the Global South



Source: Own presentation based on data from the World Bank's *International Debt Statistics* (2024), IMF data and data from national finance ministries and central banks.

from 2022 onwards led to a further increase in the cost of borrowing. According to research by OECD, yields on US government bonds have risen more sharply and rapidly since 2022 than at any time since at least 1994.[18] In many industrialised countries, the cost of borrowing for long-term bonds is at its highest level in 15 years. As a result, it has become disproportionally expensive for countries in the Global North to refinance maturing government bonds.

Borrowing costs in the Global North, and especially in the US, act as implicit key interest rates for lending to countries in the Global South.

Due to regressive monetary policies, refinancing conditions for countries in the Global South have deteriorated further in recent years; while countries in the Global South paid an average of 4% interest on new government bonds in 2020, this figure rose to 6% in 2024 – and to almost 8% for countries in sub-Saharan Africa.[19]

Fourteen countries issued government bonds denominated in US dollars at interest rates of over 8% in 2023 and 2024.[20] These included **Angola, Benin, Cameroon, Côte d'Ivoire, Kenya, Nigeria, Senegal** and **Mongolia**, all of which are already deemed to have heavily burdened national budgets by external debt servicing in this Global Sovereign Debt Monitor.[21]

Borrowing at such high interest rates delays the resolution of debt crises instead of overcoming them in the long term by comprehensively cancelling external debt.

Regardless of the interest rates on newly issued bonds, it is simply no longer possible for many countries to refinance themselves on the capital market. Moreover, countries in the Global South are affected by more than just the increase in nominal interest rates. They also face an increasing real burden because the United States' restrictive monetary policy has led to a devaluation of their currencies. As described above, this means that they bear the exchange rate risk if they have external currency debt (see Box 3).
The current combination of high interest rates, weak economic recovery and growing geopolitical tensions suggests that refinancing conditions are unlikely to improve for many countries in the Global South in the medium term.

Strategies for greater monetary sovereignty and new dependencies
Governments in countries in the Global South have learned from past crises and introduced a series of measures to reduce their dependence on the mentioned dynamics. For instance, many countries have built up high foreign exchange reserves to protect themselves against exchange rate fluctuations. In particular, countries in Central and South America have deliberately and, in some cases very successfully, reduced their foreign currency debt, shifting towards domestic debt and debt denominated in domestic currency. **Brazil**, for example, owes around 90% of its debt to domestic creditors, while **Argentina**'s domestic debt stands at just under 80%. Furthermore, in Brazil, 60% of the debt held by external creditors is denominated in Brazilian real.

However, such measures at the national level can only counteract the existing asymmetries in the international financial system to a certain extent. They also come at a price. Building up high foreign exchange reserves comes at the expense of urgently needed government spending. It also means that countries in the Global South hold a large proportion of their assets in unprofitable investments – primarily low-yield government bonds from countries in the Global North, especially the United States – thereby helping to enable their favourable debt levels.
Countries such as Argentina and Brazil, which have borrowed more in their domestic currencies in recent years, have had to pay significantly higher interest rates and accept shorter maturities – reducing the anticipated benefits of this change considerably. Most importantly, as soft currency countries, they have almost no ability to use their monetary policy to influence the terms of their own borrowing to their advantage, especially given the liberalisation of international capital movements. Unlike hard currency countries, they remain heavily dependent on global dynamics over which they have

no influence, even with domestic currency debt. The OECD report shows that the interest rate turnaround originating in the US in 2022 has also led to a deterioration in the conditions under which countries in the Global South can borrow in their domestic currencies. Due to the shorter maturities of domestic debt, such fluctuations have an even faster impact on budgets. In a number of countries, this is severly limiting their fiscal space.[22]

The limited positive effect of switching to domestic currency debt can be explained by the way in which this change is being pursued – pushed by the IMF, the World Bank, the G20 and, in a prominent role, Germany[23]: namely through the promotion of local currency bond markets (LCBMs) in debtor nations. The intention behind the creation of LCBMs was to provide international investors with attractive investment options and to improve sales opportunities for companies from the Global North. However, critical voices have long warned that this will neither significantly reduce dependence on global capital movements nor the need to generate foreign exchange earnings through increased exports.[24] Furthermore, the goal to attract sufficient long-term foreign investment to promote a more sustainable economy is far from being achieved.

On the contrary, the creation of LCBM requires a restructuring of the domestic (financial) economy and public finances. This not only makes it harder to move away from a harmful export-oriented economic model, but also encourages the privatisation and commodification of social services.[25] At the same time, it becomes more challenging to find alternative means of achieving greater monetary sovereignty. For instance, instruments of financial repression such as restrictions on capital movements, which many Western European countries successfully employed to reduce their high debt levels in the decades following the Second World War, conflict with the structural prerequisites for establishing LCBMs as advocated by the IMF, the World Bank, and the G20 countries.

Conclusion

This analysis shows: countries in the Global South are particularly at risk of falling into an external public debt crisis. In at least 47 countries, the burden of debt servicing to external creditors on public budgets is so heavy that an acute debt crisis is to be expected, especially when combined with unfavourable refinancing conditions.

In a further 28 countries, high interest and principal payments to external creditors significantly restrict fiscal policy options. The financing of public services, social infrastructure and climate and environmental protection measures is also likely to be seriously jeopardised in these countries.

Countries in sub-Saharan Africa and those classified as low- or lower-middle-income are particularly hard hit. However, countries with high-middle incomes – especially in Central and South America – are also highly vulnerable and should not be overlooked in debt resolution debates.

This vulnerability is not due to the fact that countries in the Global South are more heavily indebted than those in the Global North. Rather, it is linked to the fact that a large proportion of their debt is held by external creditors and denominated in foreign currencies. Their currencies' weaker position in the international currency hierarchy also significantly contributes to their vulnerability to crises. Such structural asymmetries cannot be overcome by national policies alone; comprehensive reform of the international debt and financial architecture is necessary.

An important policy would be the establishment of an effective and fair mechanism for restructuring sovereign debt under the auspices of the United Nations. This mechanism must allow for the unconditional cancellation of unsustainable and illegitimate debt, while ensuring the equal participation of all creditors.

Even though the analysis focuses on debt servicing over the next three years, debt restructuring negotiations must take a long-term approach. Granting short-term relief through payment deferrals is not enough. Instead, a real reduction in debt is needed to overcome long-term dependencies.

Reforming the international financial and debt architecture must go beyond creating a fair and transparent restructuring mechanism; it must take the entire debt cycle into account. The 4th International Conference on Financing for Development, to be held in Seville in June 2025, provides an opportunity to launch an inclusive multilateral reform process (see '2025 Jubilee – opportunity of the decade', from page 40).

It is also vital to ensure sufficient non-debt financing options for public services in the Global South, rather than relying fatalistically on development financing from financial markets. This requires fair global tax cooperation and sufficient official development assistance (ODA) funding, which contributes to global stability and fosters political trust, particularly in the face of escalating global crises and geopolitical tensions.

[1] Bahrain, Cook Islands, Cuba, Eritrea, Liechtenstein, Monaco, Niue, North Korea, Taiwan and Venezuela.

[2] erlassjahr.de (forthcoming in 2025): 'Position paper: What Role Should International Actors Play in Domestic vs. External Debt Crises?'.

[3] It is particularly problematic that the IMF only accepts market-liberal approaches to reducing domestic debt. Historically effective instruments, such as financial repression measures, which enabled the United States, the United Kingdom, and many other Western European countries to reduce their debt after the Second World War in a successful and socially equitable manner, are excluded from consideration.

[4] The analysis covers 198 countries: all 193 UN member states as well as the Cook Islands, Kosovo, Niue, the Palestinian territories and Taiwan, which are not recognised as sovereign nations by all UN member states.

[5] IMF (2025): 'Country Report No. 25/27', p. 16.

[6] Bloomberg (03.10.2024): "Ethiopia Bondholders Say 18% Haircut Offer Isn't Reasonable".

[7] Since a new methodology for assessing the debt situation was introduced in the Global Sovereign Debt Monitor 2025, a fictitious analysis was carried out for 2024 based on the new methodology to ensure comparability with the previous year's analysis

[8] These are: Albania, Andorra, Armenia, Bangladesh, Belarus, Burundi, Central African Republic, Chad, Colombia, Costa Rica, Ecuador, Georgia, Haiti, Honduras, Indonesia, Mauritius, Morocco, Mozambique, Nicaragua, Papua New Guinea, Saint Lucia, São Tomé and Príncipe, Sierra Leone, Tajikistan, Tanzania, Uganda and Uzbekistan.

[9] See, among others, Zattler, J. (2025): 'How to deal with the current debt crisis of developing countries?'

[10] Antigua and Barbuda, Argentina, Dominica, Fiji, Kyrgyzstan, Lesotho, Malawi, Nepal, Palau, Panama, Samoa, Ukraine, Zimbabwe. There is no data on external debt servicing available for Antigua and Barbuda or Panama. Therefore, it is possible that these countries should already be classified as having heavy or very heavy debt burden.

[11] The United Kingdom and the United States will both have to pay more than 10% of their government revenues to external creditors over the next three years – in Canada and Japan, the figure is more than 15%.

[12] erlassjahr.de (2021): 'Handbuch: Von Gläubigern und Schuldnern – Informationen und Lösungsideen zur Schuldenkrise im Globalen Süden', p. 13.

[13] The political peculiarity of the EU countries' common monetary union, which is relevant in this context, is discussed on page 13.

[14] The HIPC Initiative was a one-off debt relief programme for countries with particularly low incomes and high levels of debt. Countries that have already participated in the initiative are not eligible for further debt relief. With Somalia, 37 of the 39 countries designated for the initiative have benefited from it. Eritrea and Sudan are the two remaining countries that were originally eligible but have not yet received debt relief due to their respective political and institutional situations.

[15] A look at the median in countries in the Global South and the Global North also confirms the comparison made in this section, namely that the differences between North and South cannot be explained by individual outliers.

[16] See erlassjahr.de (2021): 'Handbuch: Von Gläubigern und Schuldnern – Informationen und Lösungsideen zur Schuldenkrise im Globalen Süden', p. 13 and 26.

[17] See for example Reinhart et al. (2016): 'Global Cycles: Capital Flows, Commodities, and Sovereign Defaults'.

[18] OECD (2025): 'Global Debt Report: Financing Growth in a Challenging Debt Market Environment', p. 117.

[19] Ibid. p. 120.

[20] Ibid.

[21] The fourteen countries also include Honduras, Uzbekistan, Colombia and Costa Rica, which are rated as heavily burdened in this Global Sovereign Debt Monitor, as well as Panama, for which a risk of burden has been identified, and Turkey, for which no risk could be identified in this Global Sovereign Debt Monitor.

[22] Latindadd (2024): 'Domestic Public Debt – Is domestic debt the best financing alternative for our countries? A Latin American perspective'.

[23] See Banse (2021): 'Der "globale Pool privaten Geldes" in Afrika – Anleihemärkte in lokaler Währung und die deutsche Entwicklungszusammenarbeit'.

[24] See for example Banse (2021) and Sylla, N. S.; Koddenbrock, K. (2019): 'Financialization in the West African Economic and Monetary Union'.

[25] Ibid.

Box: Methodology – 'Global external debt burden'

In 2025, the methodology of the Global Sovereign Debt Monitor was fundamentally revised to place greater emphasis on the risks associated with **public external debt** *(see Box 1, p. 9)*. From now on, two risk factors are assessed that can lead to a public external debt crisis.

→ In a quantitative analysis, the **public external debt burden** of the individual countries around the world is examined. The methodology used for this analysis is explained in this box.

→ Additionally, a qualitative consideration of **global crisis dynamics** is presented in the article 'Global external debt burden'. The quantitative, country-based analysis is complemented by this global dimension because public external debt crises are not caused solely by the debt burdens of individual countries. In addition to country-specific aspects, global dynamics – such as commodity prices, interest rates and capital flows – play a crucial role.

Debt indicators of the quantitative analysis

$$\frac{\text{public external debt service}}{\text{annual government revenues}}$$

Indicates whether interest and principal payment obligations to external creditors limit a country's fiscal space for public investment and essential spending.
The indicator shows the percentage of the national budget used for external debt servicing. It takes the due date and any interests into account. For the analysis in the Global Sovereign Debt Monitor, the average value from three years is assessed to mitigate the impact of annual fluctuations.

$$\frac{\text{public external debt}}{\text{gross domestic product or gross national income}}$$

Measures the relation of the entirety of outstanding public external debt to the total annual economic output of a country.
This indicator can be used as an early warning indicator to point out possible external debt issues in relation to the economy's overall productivity.

$$\frac{\text{public external debt}}{\text{export revenue}}$$

Shows how well a country is able to service its debts from export revenues.
This indicator can also be used as an early warning indicator to point out possible public external debt issues in relation to export earnings. The indicator is particularly informative when a large proportion of external debt is denominated in foreign currency, as export earnings are then one of the most important means of counter-financing.

Currency denomination and currency position in the international currency hierarchy

In addition to the three debt indicators above, the assessment of the external debt situation also looks into the proportion of outstanding debt to external creditors denominated in foreign currency. Foreign currency-denominated debt creates pressure to increase export earnings as one of the major means of counter-financing. In addition, the debtor nation also bears the exchange rate risk. Moreover, the debtor nation's central bank can neither act as a "lender of last resort" nor indirectly facilitate the refinancing of sovereign debt through monetary policy measures *(see erlassjahr.de (2021): 'Handbuch: Von Gläubigern und Schuldnern – Informationen und Lösungsideen zur Schuldenkrise im Globalen Süden', p. 13 and 26)*.

Consideration is also given to whether the debtor nation has a hard or weak currency *(see table on the inside back cover of this Global Sovereign Debt Monitor)*. Although debt denominated in domestic currency does not create the same export pressure as foreign-currency debt in countries with weak currencies, monetary policy options to influence refinancing conditions remain far more limited than in countries with hard currencies.

Categories for analysing the public external debt burden

The national budget is **very heavily burdened** if:

- the average public external debt service over the next three years (2025-2027) amounts to more than 15% of government revenues;
- AND more than 50% of public external debt is denominated in foreign currency OR the debtor nation has a weak currency.

The national budget is **heavily burdened** if:

- the average public external debt service over the next three years (2025-2027) amounts to more than 10% of government revenues;
- AND more than 50% of public external debt is denominated in foreign currency OR the debtor nation has a weak currency.

There is a **risk of debt burden** if:

- the average public external debt service over the next three years (2025-2027) amounts to less than 10% of government revenues;
- AND public external debt amounts to more than 40% of the gross national income OR public external debt amounts to more than 150% of annual export revenues OR the IMF identifies the external debt situation as unsustainable;
- AND more than 50% of public external debt is denominated in foreign currency OR the debtor nation has a weak currency.

The external debt situation is **ambiguous** if:

- at least one of the three debt indicators exceeds the thresholds described above;
- AND more than 50% of public external debt is denominated in the debtor nation's currency, BUT it is difficult to determine whether the domestic currency is a weak currency or whether the debtor nation benefits from the advantages of a hard currency described above.

There is **no risk** of an official external debt crisis if:

- none of the three debt indicators exceeds the thresholds described above;
- OR more than 50% of public external debt is denominated in the debtor nation's currency AND the debtor nation has a hard currency.

Comparison with last year's analysis

Besides assessing the current external debt burden, a comparison with last year's analysis is conducted for (very) highly burdened countries as well as for countries with a risk of debt burden (see arrows on the map inside the front cover of this Global Sovereign Debt Monitor).

The burden (on the national budget) has **increased** if the external debt situation has deteriorated by at least one category – for example from heavily burdened to very heavily burdened;
OR if it is still described with the same category, but the majority of the three debt indicators has deteriorated by at least 10%.

The burden (on the national budget) has **decreased** if the external debt situation has improved by at least one category – for example from heavily burdened to risk of debt burden;
OR if it is still described with the same category, but the majority of the three debt indicators has improved by at least 10%.

The development is described as showing **no significant change** if the current burden is still described with the same category and the majority of the three debt indicators has neither improved nor deteriorated by 10%.