

# CHANGING DEBT PROFILE OF DEVELOPING NATIONS



# DEBT PROFILE OF IN LOW- AND MIDDLE-INCOME COUNTRIES

The World Bank's International Debt Report 2025 reveals a persistent and growing debt scenario in Low and Middle Income Countries (LMICs), despite a slight easing of global financial conditions in 2024.

## Record Debt Levels and Outflows

The total external debt stock of LMICs reached a new record of US\$8.9 trillion in 2024, reflecting a modest 1.1 percent rise from the previous year. Of this total, the 78 most vulnerable countries, those eligible for International Development Association (IDA) assistance, owe a record US\$1.2 trillion<sup>4</sup>. The period between 2022 and 2024 saw a financial riptide where about US\$741 billion more flowed out of developing economies in debt repayments and interest than flowed into them, representing the largest debt-related outflow in more than 50 years

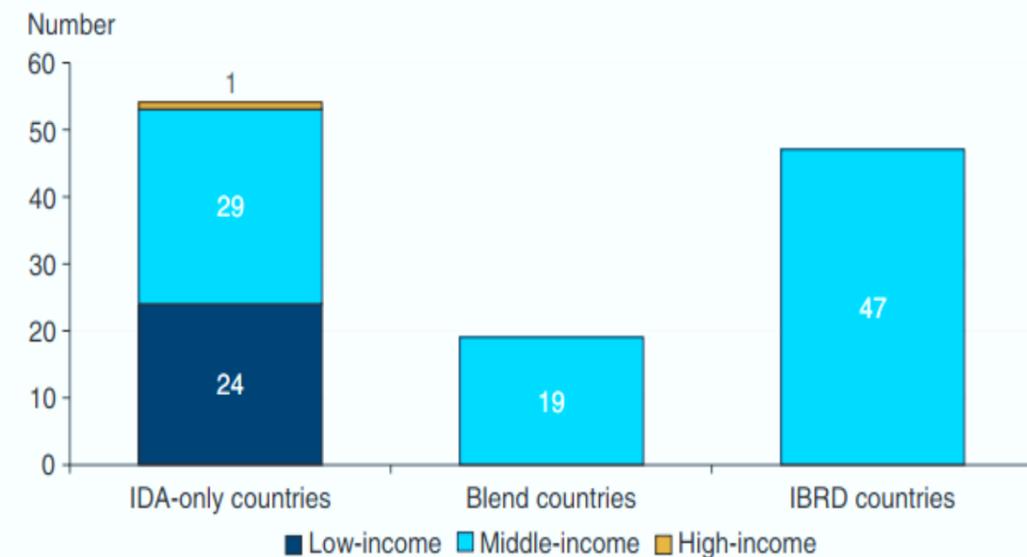
## The crushing cost of debt service

LMICs' interest payments to service their external debt reached an all-time high of us\$415.4 billion in 2024, marking the second consecutive year this record has been broken payments are 2.4 times higher than a decade ago

## Shifting creditor landscape and flows

Net debt inflows (disbursements minus principal repayments) to LMICs saw an increase of 40.7 percent to us\$210.3 billion in 2024. This was driven largely by bond issuance (38.1 percent) and financing from multilateral institutions (48.5 percent), which together accounted for over 86.5 percent of long-term debt inflows.

**Figure B1.2.1** Number of Low- and Middle-Income Countries Covered in *International Debt Report 2025*, by FY2026 Income and Lending Groups



Sources: World Bank, "World Bank Country and Lending Groups," <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>; World Bank IDA, <https://ida.worldbank.org/en/home>.  
Note: IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; FY = fiscal year.

# CHANGES IN EXTERNAL DEBTS

## Official Creditor Retreat

Of 86 countries for which data were available, 50 recorded an increase in domestic government debt that outpaced the increase in their external debt from 2023 to 2024. Net debt inflows from bilateral creditors fell 76 percent to US\$4.5 billion, the lowest level since the 2008 financial crisis. The share of long-term external debt held by the public and publicly guaranteed (PPG) sector has risen to 60 percent of the total, reflecting government efforts to finance development projects after the pandemic.

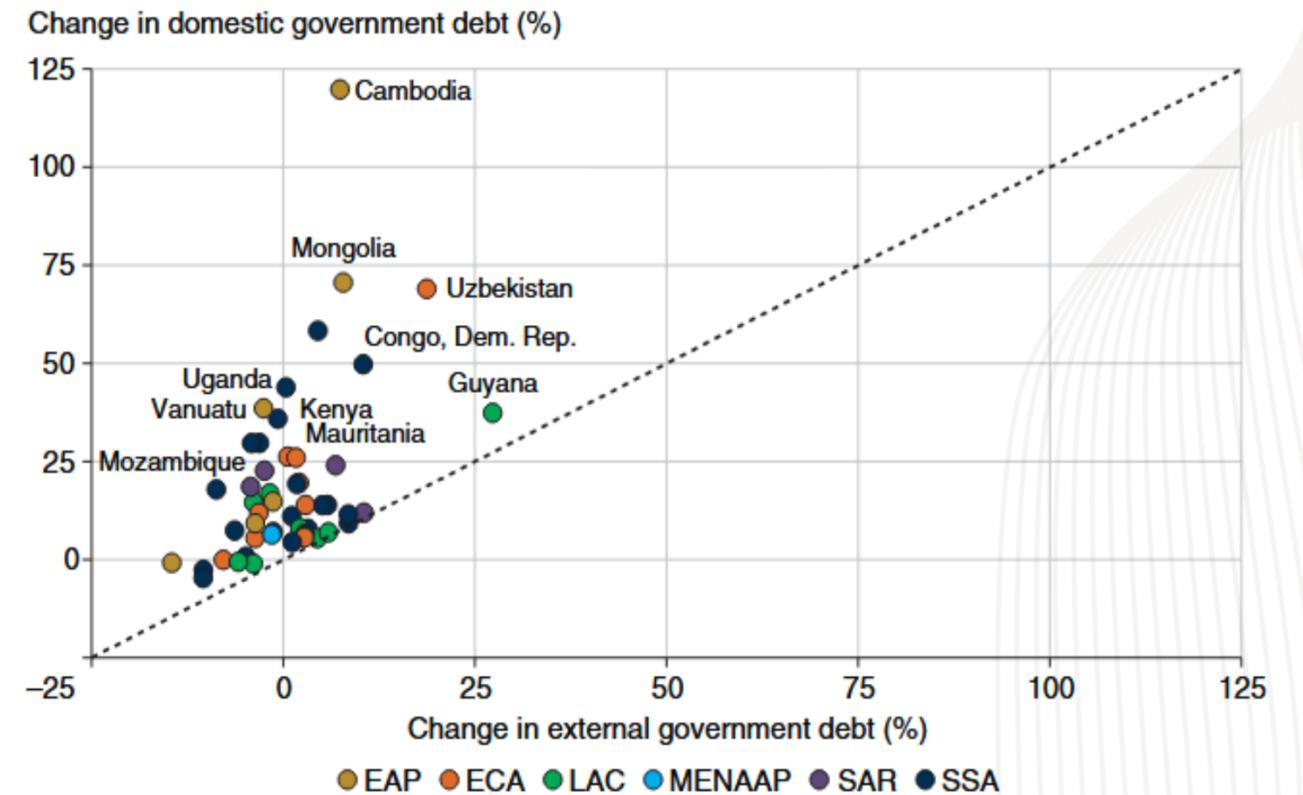
## External debt stock reached an all-time high

For IDA-eligible countries, the total external debt stock reached an all-time high of US\$1.2 trillion in 2024<sup>16</sup>. However, multilateral institutions remain the dominant source of concessional financing, accounting for 73.2 percent of PPG net debt flows to LMICs in 2024.

## Bond Market Reversal

Bond flows shifted drastically, moving from a US\$75.4 billion outflow in 2023 to a US\$55.0 billion inflow in 2024.

**Figure 1.2 Change in Domestic and External Government Debt, Selected Low- and Middle-Income Countries, 2023–24**



# WIDENING GAP: DEBT, GROWTH, AND POLICY RISKS

The relationship between real GDP growth and external debt burden dynamics has weakened significantly over the past decade<sup>19</sup>. The share of economies with a negative correlation between GDP growth and external debt stock growth increased from 43 percent during 2015-2019 to 64 percent during 2020-2024<sup>20</sup>. This pattern suggests that recent debt accumulation is driven less by growth-oriented investment and more by immediate needs for stabilization and rollover financing.

## Macroeconomic Outlook and Policy Risks

GDP growth in LMICs is estimated to inch down to 4.3 percent in 2025 (from 4.4 percent in 2024)<sup>22</sup>, primarily due to a projected export slowdown<sup>23</sup>. Excluding China, growth is set to remain stable at 3.9 percent.

Inflationary pressures are projected to continue softening, with headline inflation estimated to decrease to 3.7 percent in 2025. This easing is expected to allow monetary policy to loosen gradually in 2026–2027, potentially contributing to a decline in debt service costs

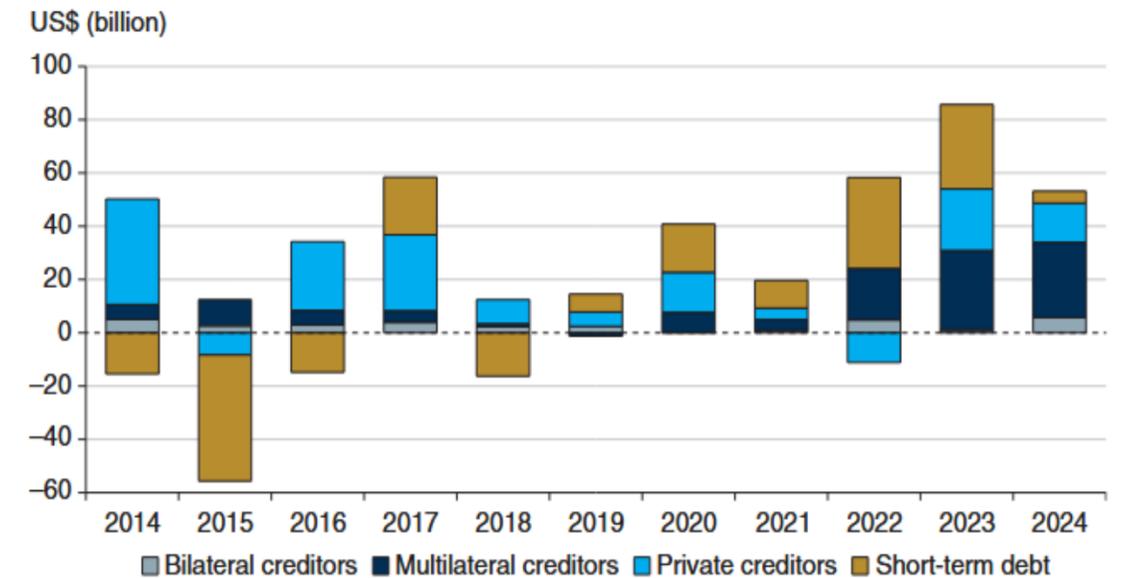
## Key Downside Risks

**Trade Tensions and Uncertainty:** Further escalation of trade tensions and heightened policy uncertainty could negatively impact output, employment, and investment by curtailing foreign direct investment (FDI).

**Financial Stress:** Tighter financial conditions and market disruptions could lead to capital outflows, raise borrowing costs, and worsen fiscal pressures, particularly in countries with high debt and weak credit ratings.

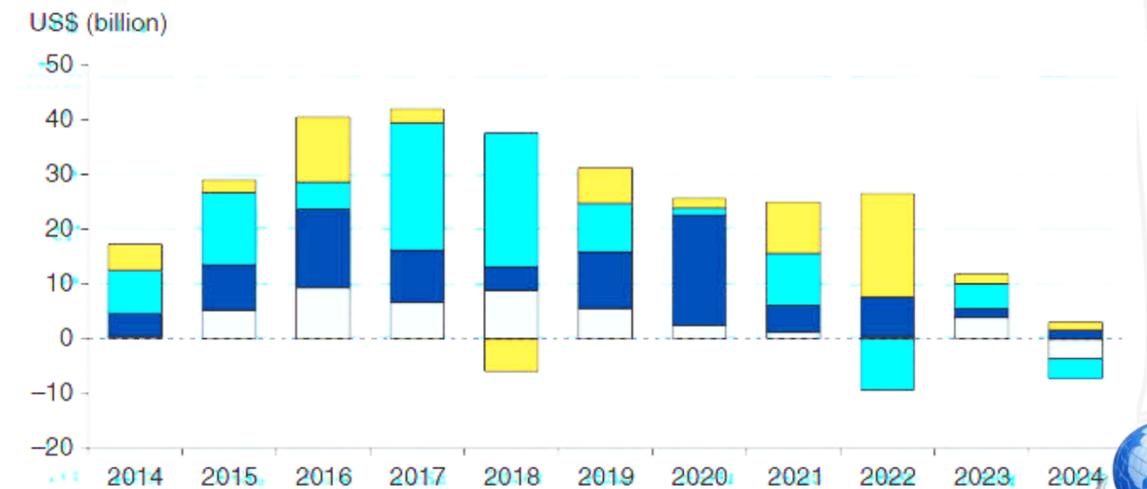
**Geopolitical Conflict:** Continued or escalating conflict could result in persistent output losses and increase the probability of debt default.

**Figure 1.20 Net Debt Flows to Europe and Central Asia, by Creditor Type, 2014–24**



Source: World Bank International Debt Statistics database.

**Figure 1.24 Net Debt Flows to the Middle East, North Africa, Afghanistan, and Pakistan, by Creditor Type, 2014–24**



# RESTRUCTURING OF DEBTS

Zambia restructured US\$3.9 billion of Eurobond debt, achieving a 40 percent reduction in present value terms in the baseline scenario

Ghana secured a restructuring agreement with bilateral creditors and bondholders, delivering an overall 37 percent reduction in present value terms on US\$13.0 billion of bonds

Sri Lanka restructured about US\$26 billion with external creditors outside the Common Framework, including US\$14.2 billion with bondholders

Haiti benefited from US\$2.2 billion in oil-related debt forgiveness from República Bolivariana de Venezuela



# CONCLUSION

## What can be done?

### Modernizing the global debt resolution system

Modernizing the global debt resolution system, including the Low-Income Country Debt Sustainability Framework, to integrate domestic debt and ensure predictable, timely engagement with all creditor types and strengthening domestic revenue mobilization and focusing on prudent debt management to increase fiscal space.

### Government borrowing should be used to finance long-term growth:

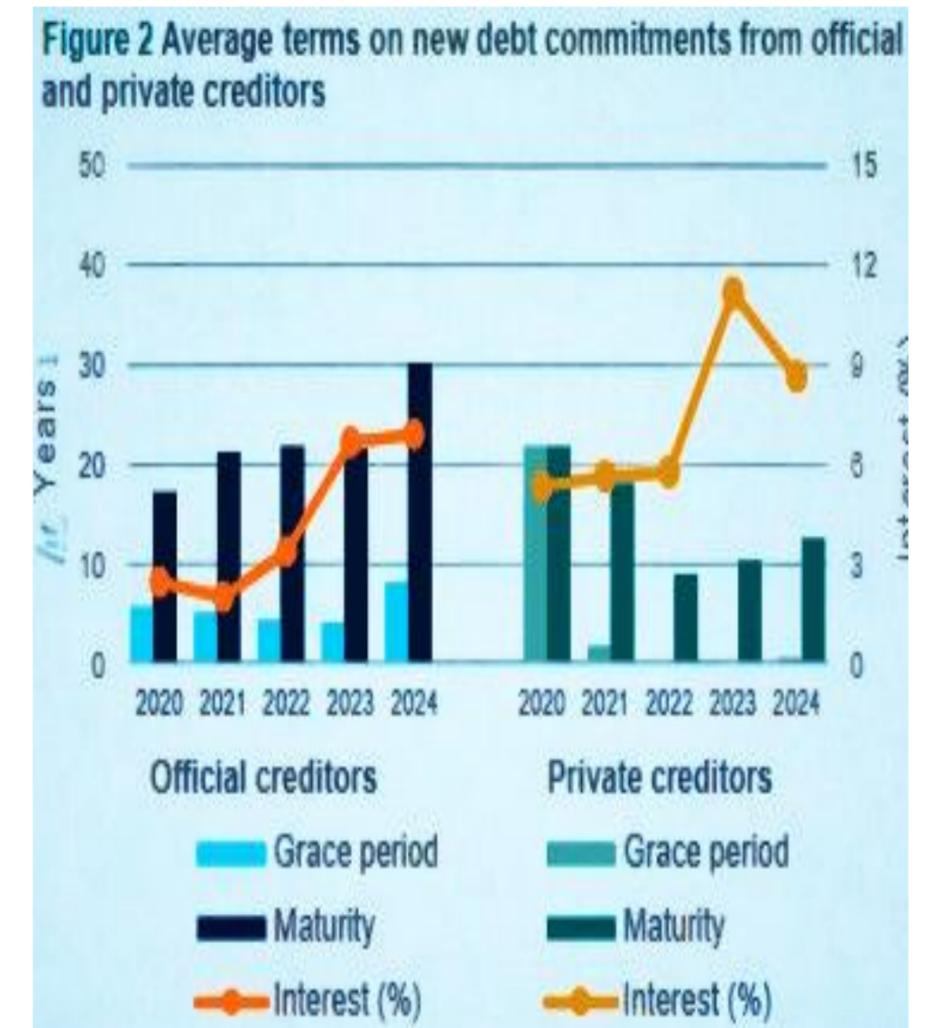
Governments' current financing needs will require strong efforts to use debt markets as strategically as possible. Many advanced economies will likely need a combination of fiscal prudence, structural reforms to boost growth and greater efficiency in public spending. Meanwhile, emerging markets will need to develop their local capital markets to support growth and provide greater financial resilience.

### Corporates should be incentivized to prioritize spending that enhances productivity:

Corporates used the low-rate era to prioritize financial operations, partly severing the link between corporate investment and borrowing. This impacts future growth prospects and therefore the ability to meet upcoming refinancing needs. Corporates need to be incentivized to prioritize borrowing for spending that enhances productive capacity to better ensure the long-term sustainability of their debt.

### Capital markets should be developed to finance the climate transition

The public sector alone will not be able to finance the climate transition, and the private sector's potential to drive this transformation is huge. However, more reliance on the private sector requires rapid development of capital markets. Financial regulation reforms will be essential to unlock debt markets' potential to finance the transition, particularly to enhance capital market development in emerging markets.



# THANK YOU



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