Policy Paper - Urgent Reforms for Debt Justice

Complementing the 2025 C7 Communique recommendations on Economic Justice

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Global South debt levels continue to increase, reaching new peaks every year. In 2024, global debt rose to $318 trillion (USD), equivalent to 328% of global GDP.

In the low-interest rate environment of the 2000s and 2010s, low-income countries were encouraged to borrow from private lenders to finance development. The global economic turmoil and interest rate spikes following the 2008 financial crash, COVID pandemic, and war in Ukraine have pushed dozens of countries into debt crises. The G20 Common Framework created to address the escalating crisis has failed to produce results. As a result, 54 countries are trapped in severe debt distress, with many more on the brink.

Currently, 58% of the debt of low- and middle-income countries is held by private lenders, 27.3% by multilateral lenders and 14.5% by bilateral lenders, creating challenges for debt restructuring processes. The burden of debt in southern countries is equivalent to 35% of tax revenues, undermining expenditure on education, health and social protection.

The current mechanisms to provide debt resolution, including the G20 Common Framework, are ad hoc and have failed to bring private lenders to the negotiating table. In addition, a lack of transparency, accountability and fair access to concessional financing threaten to exacerbate already historic levels of unsustainable debt. Debt is stalling efforts to reduce inequalities, pursue the SDGs, invest in climate action, and uphold human, gender, and environmental rights.

The G7 has the power to drive reforms to fix the failed economic system that produced this crisis and which is failing to offer solutions. In a year where debt is one of the most urgent global challenges, G7 governments must respond to calls to action from Global South partners within the Financing for Development process and the global Jubilee 2025 campaign.

A reform of the debt architecture and the creation of a UN Convention Framework on Sovereign Debt are needed to facilitate change in the following areas:

- ***Debt cancellation:*** Cancellation of unsustainable debts, without economic policy conditions that undermine debtor countries' autonomy, is essential to generate fiscal space for the countries that need the most. Given the urgency of the debt crisis, the questionable conditions under which some loans were issued (e.g., to corrupt or authoritarian governments), and the fact that many countries have already repaid the principal multiple times over, debt relief is imperative. The precedent of debt cancellation efforts in the early 2000s shows that debt can indeed be cancelled, but that such cancellation must also respect the sovereignty of debtor nations to determine their own paths of economic development and be accompanied by structural reforms in the international financial architecture to prevent future crises.

- ***Automatic debt suspension:*** An immediate suspension of debt servicing payments is crucial to protect human rights in the face of external shocks, including climate, health and other shocks. Applications to debt restructuring frameworks must include standardized debt service suspensions to incentivize timely and effective agreements.
- ***Timely, transparent, and independent debt restructuring:*** G7 governments must act urgently to build a debt restructuring process that enforces comparable treatment across all creditors and enables debt sustainability in the long term. Recent debt restructuring deals have provided insufficient relief - and in some cases no significant relief at all - leaving debtor country governments unable to meet their obligations to their citizens and vulnerable to being plunged back into debt crisis by any future shock.
- ***Debt Sustainability Assessments:*** Debt Sustainability Assessments must become more holistic, considering total public debt risks, including debt service ratios. Assessments must go beyond a debtor country's ability to repay creditors and also evaluate its capacity to meet citizens' needs, including basic services and human and environmental rights. This should incorporate IMF reform and the implementation of UNCTAD principles.

  Assessments should be transparent for national stakeholders such as parliamentarians, civil society, academia and citizens. This means publication of methodologies for calculating debt sustainability and transparent definitions of what constitutes sustainable and unsustainable debt. Debt sustainability frameworks must also require that debt restructurings reduce risk levels to low to moderate with adequate space to absorb shocks.
- ***Responsible borrowing and lending:*** Responsible lending and borrowing guidelines must be introduced, be binding, and in accordance with UNCTAD principles.
- ***National legislation:*** Legislation must be enacted in key jurisdictions, namely the United Kingdom and the State of New York, to ensure that private creditors are compelled to cooperate in debt restructuring negotiations.
- ***An end to harmful conditions on loans:*** Loans, including IMF bailout packages, must not involve fiscal consolidation conditions that stunt development and cost lives. Rather than short-term austerity conditions that prioritise debt servicing payments over long-

term economic growth and development and human rights considerations, policy approaches should aim to break cycles of debt and poverty and accelerate development.

- ***Access to concessional loans:*** To prevent the debt spiral for low and middle-income countries, concessional loans must be a priority and should constitute the majority of climate financing for low-income climate-vulnerable states.

  The G7 needs to tackle the high cost of capital for southern countries by reducing interest rates. In addition, it is crucial to increase access to non-debt creating mechanisms to free up fiscal space such as the issuance of SDRs to provide liquidity for sustainable development and climate action, delinking allocation criteria from IMF quota shares and rechanneling SDRs.

- ***Credit Rating Agencies regulation:*** Unfair risk assessment and inaccurate valuation of economies lead Global South countries to pay much higher interest rates when borrowing to invest in their own development. Better regulation or the creation of an independent agency could guarantee the independence and integrity of the credit rating process and improve the quality of the ratings issued.

- ***Establish a public global debt registry*:** This would increase transparency in the global debt system and ensure that all lenders and borrowing governments are held accountable. Legislation in key jurisdictions like the United Kingdom and the State of New York should make enforceability of loan contracts contingent on timely disclosure in the register.

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