

A RESEARCH REPORT BY THE ALTIVUS RESEARCH DESK

Global Debt and Emerging Market Risk

A record 353 trillion dollar debt pile, a widening squeeze on the world's poorest economies, and what it means for investors and policymakers

Economics | Finance | Strategy | Development

June 2026

Table of Contents

Executive Summary	3
1. Introduction: Why Sovereign Debt Is Back at the Center of the Conversation	5
2. The Global Debt Landscape	6
3. Emerging Markets at the Center of the Story	8
4. The Squeeze on Developing Economies	10
5. Sovereign Default and the Restructuring Era	12
6. China: From Lender to Collector	14
7. How Financial Markets Are Pricing Emerging Market Risk	16
8. Country Spotlight: India's External Debt Position	18
9. Climate, Nature, and the New Generation of Debt Instruments	20
10. Strategic Implications	21
11. Outlook and Scenarios, 2026 to 2030	22
Conclusion	23
Appendix A: Data Tables	24
Appendix B: Glossary of Key Terms	25
Sources and References	26

Executive Summary

Global debt has reached a record 353 trillion US dollars, according to the Institute of International Finance, after the fastest pace of accumulation since the pandemic. Nearly 29 trillion dollars was added in 2025 alone. Yet the headline debt to GDP ratio has actually eased to around 305 percent, helped by strong nominal growth, persistent inflation, and a weaker dollar that has flattered the dollar value of foreign currency reserves and growth in mature economies. Beneath that aggregate calm sits a far more uneven picture.

Emerging markets now carry more than 115 trillion dollars of debt, an all time high, and face record refinancing needs of over 9 trillion dollars in 2026. Much of that growth is concentrated in China, whose government debt to GDP is approaching 100 percent, but debt is rising almost everywhere, from Brazil and India to Poland and Mexico.

For the world's poorest economies, the picture is starker still. Between 2022 and 2024, developing countries paid 741 billion dollars more in debt service than they received in new financing, the largest such gap in at least fifty years, according to the World Bank's International Debt Report. Sri Lanka, Zambia, Ghana, and Ethiopia have all defaulted and entered restructuring in the past four years. China, once the developing world's largest source of fresh capital, collected a record 35 billion dollars in repayments in 2025 alone, more than it disbursed in new lending, a watershed described by analysts as the moment Beijing shifted from creditor to collector.

Financial markets, for now, are pricing almost none of this stress. Emerging market bond spreads sit near their tightest levels since before the 2008 financial crisis, and emerging market debt delivered double digit total returns across every major segment in 2025, from investment grade sovereigns to local currency bonds. That gap between underlying vulnerability in the poorest economies and apparent calm in the broader asset class is the central tension this report explores.

This report sets out the scale of the global debt build up, examines how that burden is distributed across advanced and emerging economies, traces the institutional response through the IMF, World Bank, and the G20 Common Framework, profiles the major sovereign defaults and restructurings of the past four years, and assesses what all of this means for India, for investors, and for the strategists and policymakers who will spend the next decade managing it.

Key figures at a glance

Key figure	Value
Total global debt, latest reading	353 trillion dollars
Global debt to GDP ratio	305 percent
Total emerging market debt, Q3 2025	more than 115 trillion dollars

Emerging market refinancing needs, 2026	over 9 trillion dollars
Developing country net debt outflow, 2022 to 2024	741 billion dollars
External debt stock of low and middle income countries, 2024	8.9 trillion dollars
Debt service paid to China by developing countries, 2025	35 billion dollars
India external debt to GDP, June 2025	18.9 percent

Source: Institute of International Finance, World Bank International Debt Report 2025, Reserve Bank of India, Lowy Institute

1. Introduction: Why Sovereign Debt Is Back at the Center of the Conversation

For most of the decade after the 2008 financial crisis, sovereign debt was a quiet corner of global finance. Interest rates were low, borrowing was cheap, and the debt to GDP ratios that economists fretted over rose gradually rather than suddenly. That era ended with the pandemic, when governments everywhere borrowed at a pace not seen since the Second World War, and it has not really returned since. Five years on, the world is dealing with the consequences: a record debt stock, a higher and more uneven cost of capital, and a growing number of countries that have either defaulted outright or are managing debt loads that economists consider unsustainable without restructuring.

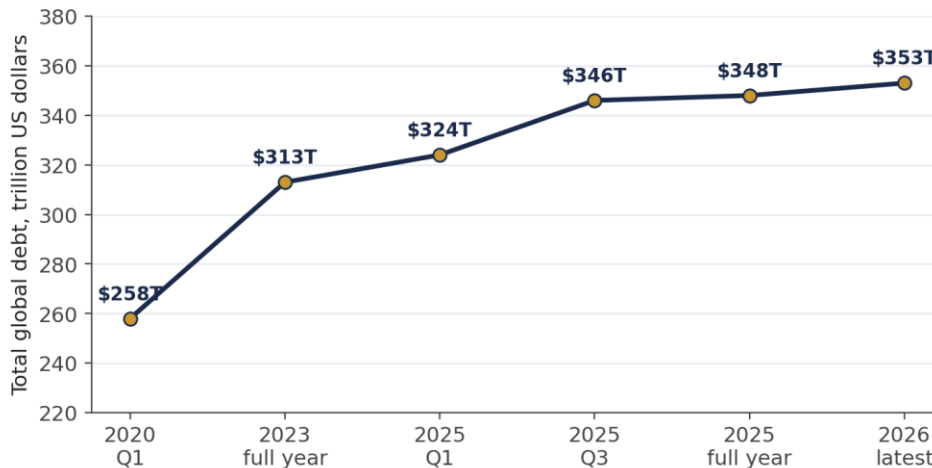
Three forces explain why this matters more now than it did even two or three years ago. The first is monetary. Interest rates rose sharply across 2022 and 2023 as central banks fought inflation, and even as policy rates have since come down, the average interest rate that developing economies pay on newly contracted public debt stood at a twenty four year high in 2024. Debt taken on cheaply a decade ago is being rolled over at a much higher cost today, and that refinancing wave is only building. The second is structural. A new category of capital intensive investment, led by artificial intelligence infrastructure and data centers, is reshaping corporate borrowing patterns and competing with sovereigns for capital even as governments themselves borrow more for defense, energy transition, and industrial policy. The third is institutional. The mechanisms the world built after the 2008 crisis and the 2010s commodity slump, chiefly the G20 Common Framework for debt treatment, have struggled to deliver fast or predictable outcomes, leaving countries like Zambia and Ghana in protracted negotiations for years at a time.

For a student led consulting collective working across economics, finance, and strategy, sovereign debt is not an abstract macroeconomic topic. It is the backdrop against which every other conversation about emerging market growth, infrastructure financing, currency risk, and investment strategy now takes place. This report aims to give that backdrop the same rigor we would bring to any client engagement: clear data, identified sources, and a set of conclusions that can actually inform a decision.

2. The Global Debt Landscape

The headline number is striking on its own. According to the Institute of International Finance's Global Debt Monitor, total global debt, combining government, household, and non financial corporate borrowing, hit a record 353 trillion dollars in the most recent reading, up from 348 trillion dollars at the end of 2025 and 313 trillion dollars at the end of 2023. The pace of that increase accelerated sharply through 2025, with nearly 29 trillion dollars added across the year, the fastest annual rise since the pandemic era surge.

Global debt has climbed from 258 trillion US dollars to 353 trillion US dollars since 2020



Source: Institute of International Finance, Global Debt Monitor, multiple editions 2020 to 2026

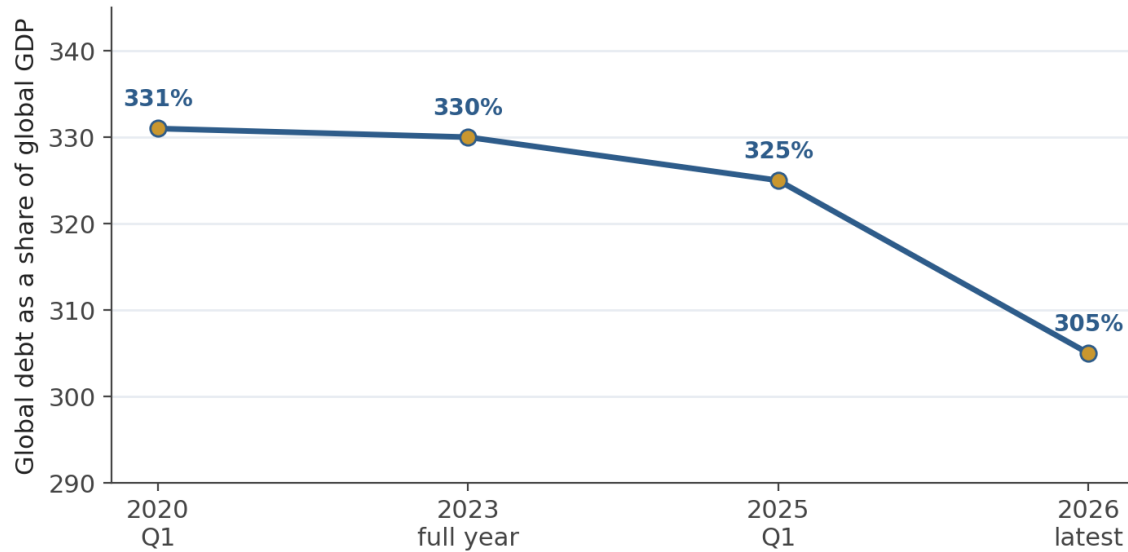
Roughly two thirds of the 2025 increase originated in mature markets, as government deficit spending rose across the United States, France, Italy, China, and Brazil. A growing share of that government borrowing is being driven by defense spending, with European Union government debt to GDP alone projected to climb by more than 18 percentage points by 2035 if current rearmament plans hold. On the corporate side, non financial corporate debt is approaching new highs as well, with rising capital expenditure tied to artificial intelligence infrastructure emerging as a fresh driver of borrowing alongside more traditional industrial and energy investment.

A Falling Ratio Masks a Rising Burden

Despite the record nominal figure, the global debt to GDP ratio has actually trended down, from 331 percent in early 2020 to roughly 305 percent today. This is not a sign that the underlying burden has eased so much as a reflection of how the ratio is calculated. Strong nominal GDP growth, partly real and partly the product of persistent inflation, has simply outpaced the growth in debt in dollar terms, while a softer US dollar through 2025 has also inflated the dollar value of growth in many economies relative to debt denominated in other currencies. For households and governments actually servicing that debt, what matters far more than the ratio is the interest rate

at which the debt was contracted, and on that measure, conditions have tightened, not eased, for the most vulnerable borrowers.

Despite record debt levels, the global debt to GDP ratio has eased



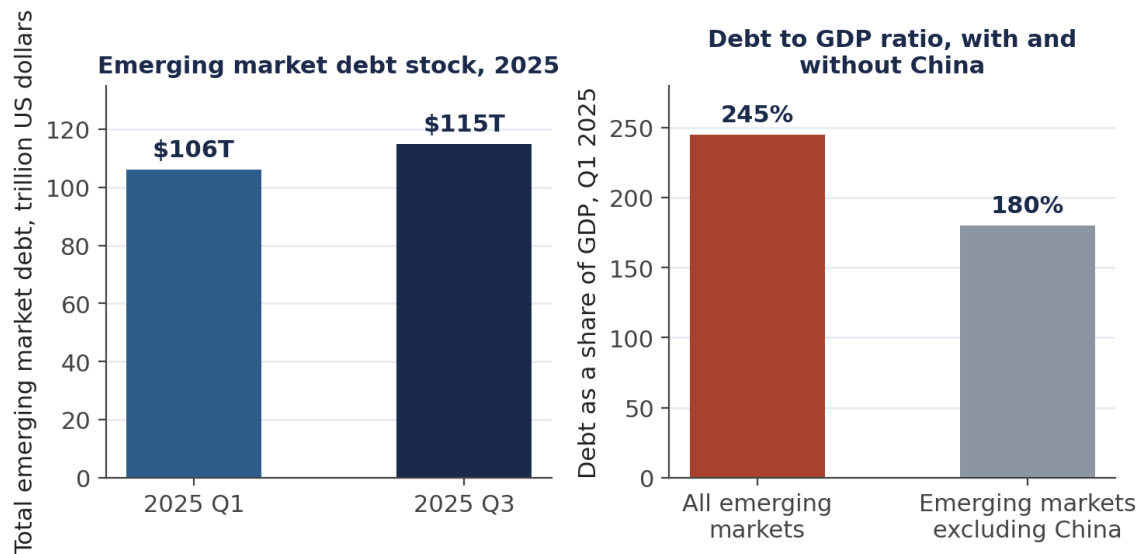
Source: Institute of International Finance, Global Debt Monitor

Looking ahead, the IIF expects global debt accumulation to remain robust, driven by continued government borrowing needs, a more accommodative monetary stance in several major economies, and lighter touch financial regulation that could encourage further leverage in parts of the private credit and shadow banking system. None of this points to deleveraging in the near term. The question is not whether debt will keep growing, but who will be able to refinance it on sustainable terms and who will not.

3. Emerging Markets at the Center of the Story

Emerging markets sit at the heart of the global debt build up. Total debt across roughly seventy emerging economies tracked by the IIF reached more than 115 trillion dollars in the third quarter of 2025, up 5.5 trillion dollars since the end of 2024, with Brazil, Russia, Korea, Poland, and Mexico recording the largest increases after China. China alone continues to account for the single largest share of the rise in emerging market debt, and its government debt to GDP ratio has climbed toward the 100 percent mark, a level once associated almost exclusively with advanced economies.

Emerging markets carry record debt loads, concentrated in China



Source: Institute of International Finance, Global Debt Monitor, 2025

Strip China out of the picture, and the story looks meaningfully different. The debt to GDP ratio for emerging markets excluding China sits closer to 180 percent, some fifteen percentage points below its own record high, even as the dollar value of debt across these economies continues to set fresh records. This distinction matters for anyone assessing emerging market risk: aggregate emerging market statistics are increasingly a story about one very large, state directed economy, layered on top of a more dispersed and individually variable set of other borrowers.

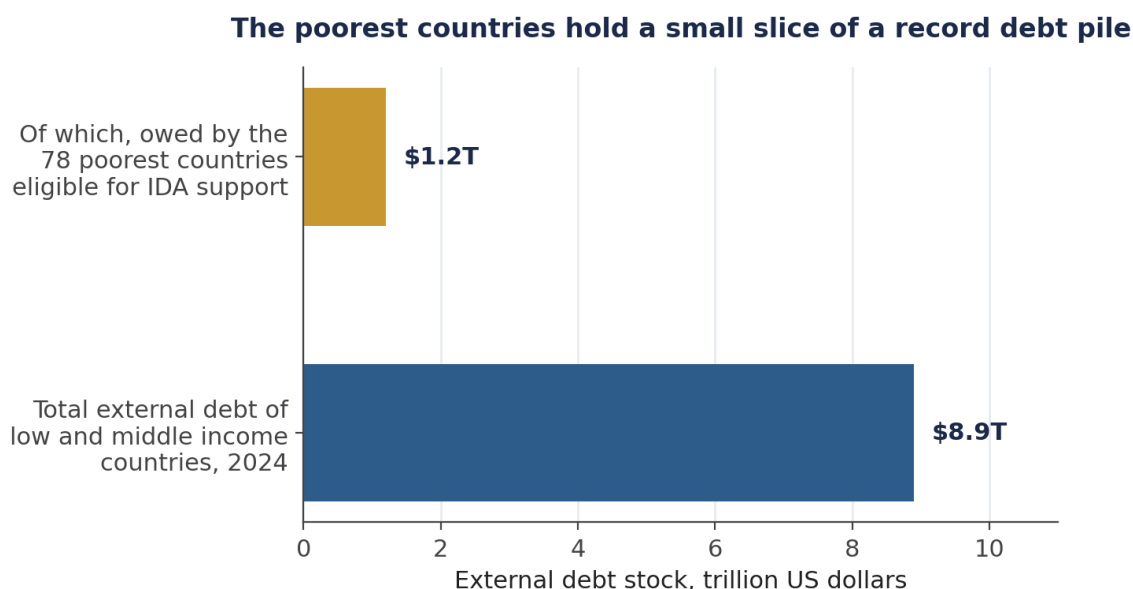
A Wall of Refinancing Is Approaching

The more immediate concern is not the stock of debt but the pace at which it must be rolled over. Emerging markets face record refinancing needs of more than 9 trillion dollars in 2026, according to IIF projections, even as supportive funding conditions and continued demand for carry trades should help contain the risk in the near term. A weaker US dollar has also acted as a buffer for developing economies through 2025, cushioning the impact of trade policy volatility originating

from the United States and limiting, for now, the kind of currency driven debt spirals that hit several emerging markets in prior tightening cycles. That buffer, however, depends on the dollar remaining soft and on global risk appetite remaining supportive, conditions that can reverse quickly.

4. The Squeeze on Developing Economies

Nowhere is the unevenness of the global debt picture more visible than among the world's low and middle income countries. The World Bank's 2025 International Debt Report, its fiftieth anniversary edition, delivered an unusually stark finding: between 2022 and 2024, developing countries paid out 741 billion dollars more in principal and interest on their external debt than they received in new financing, the largest such outflow in at least half a century. For the first time in fifty years, debt service expenditure by developing countries has exceeded the inflow of new financing.



Source: World Bank, International Debt Report 2025

The combined external debt of low and middle income countries hit an all time high of 8.9 trillion dollars in 2024, of which 1.2 trillion dollars, also a record, is owed by the 78 mostly low income countries eligible to borrow from the World Bank's International Development Association. The average interest rate that developing economies paid on newly contracted public debt from official creditors in 2024 reached its highest level in twenty four years, roughly double the rates that prevailed before 2020. Bond investors did return to the market, providing 80 billion dollars more in new financing than they received in repayments, but at interest rates hovering around 10 percent, a price that itself constrains how much breathing room that financing actually provides.

The Human Cost of a Debt Service Squeeze

These are not abstract balance sheet figures. The World Bank's report notes that among the twenty two most highly indebted developing countries, one in every two people cannot currently afford the minimum daily diet necessary for long term health. Rising debt service costs squeeze government budgets directly, crowding out spending on health, education, and basic

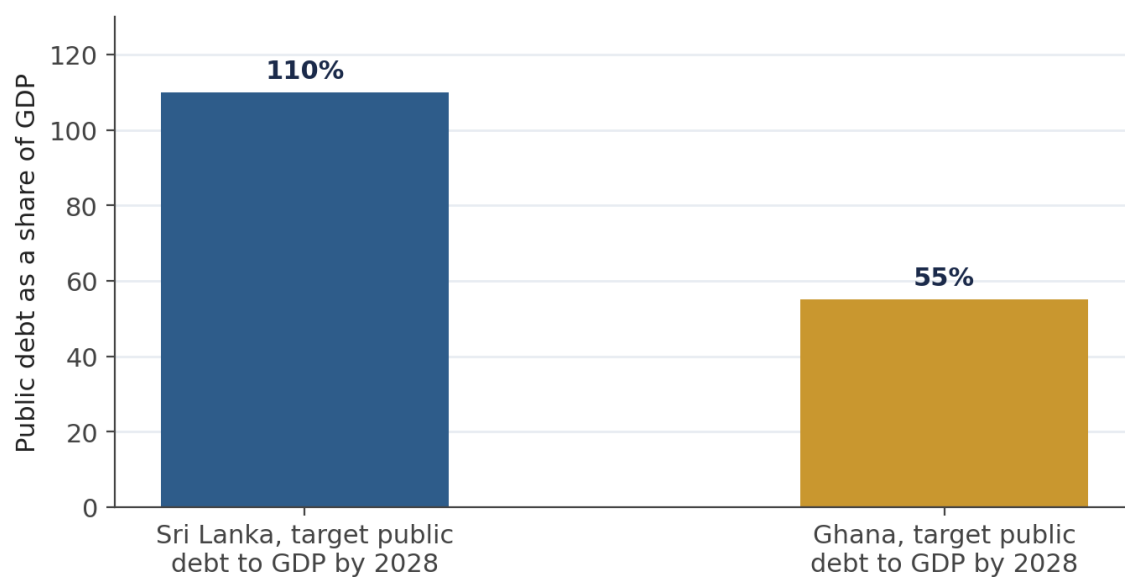
infrastructure precisely when those countries need it most. There is, the report notes, some genuine breathing room emerging: interest rates have peaked and begun to ease, bond markets have reopened, and developing countries restructured 90 billion dollars of external debt in 2024, more than in any year since 2010. The World Bank's central message is that countries should use this window to repair their fiscal positions rather than rush back into external borrowing at the first sign of market access returning.

5. Sovereign Default and the Restructuring Era

The past four years have produced one of the densest clusters of sovereign default and restructuring activity since the 1980s debt crisis. Sri Lanka defaulted on its external debt in 2022 amid reserve depletion and political turmoil, with public debt projected to reach close to 125 percent of GDP by 2026 before restructuring. Ghana abandoned bond auctions the same year as inflation and currency depreciation spiraled, ultimately reaching a major agreement with bondholders in 2024 in which creditors accepted a 37 percent haircut on 13 billion dollars of debt. Zambia, which defaulted during the pandemic in 2020, eventually secured a 6.3 billion dollar restructuring deal, including 4.1 billion dollars of debt restructured directly with China, though the process required years of difficult negotiation between bondholders and official creditors and has since faced further complications as some official creditors rejected elements of the agreed terms.

Ethiopia, meanwhile, has struggled to find a path through its own Eurobond default, with private creditors rejecting a partial payment offer that would have imposed roughly a 20 percent loss on bondholders relative to the original obligation. Argentina, operating under a different and more market access oriented framework, undertook its own combination of domestic and external debt restructuring in 2019 and 2020. Across these cases, a common pattern emerges: countries that are deemed to retain meaningful market access, such as Sri Lanka, are held to materially higher post restructuring debt targets than countries assessed under the IMF and World Bank's low income country framework, such as Ghana, even when their underlying fiscal positions look broadly comparable.

Post restructuring debt targets vary sharply across countries



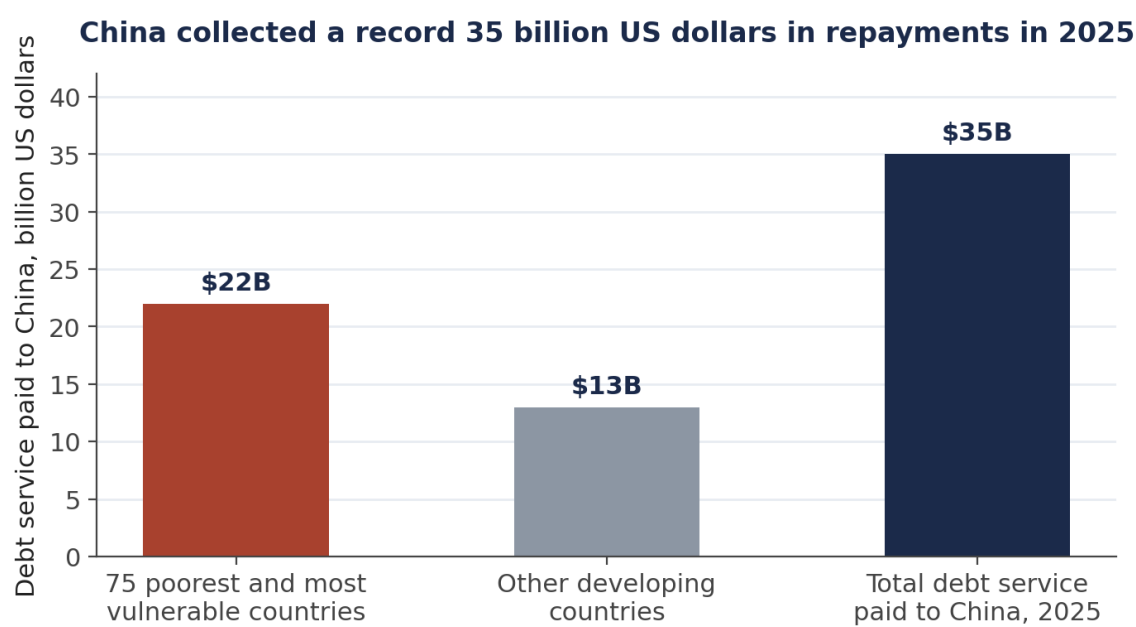
Source: IMF staff reports; Carnegie Endowment for International Peace analysis of debt sustainability targets

A Restructuring Architecture Under Strain

The G20 Common Framework, established in 2020 to coordinate restructuring between traditional Paris Club creditors and newer official lenders like China, has been widely criticized for the speed, or lack of it, with which it delivers outcomes. As of 2026, a substantial share of low income countries remain in or near debt distress according to the IMF's debt sustainability framework, and several, including Zambia, Ghana, Kenya, Senegal, and the Republic of Congo, remain under active IMF supported programs or are negotiating program reviews tied to fiscal and reform conditions that often extend well beyond their original timelines. The core tension is structural: official bilateral creditors, private bondholders, and multilateral institutions each have different incentives and different levels of willingness to accept losses, and reconciling those positions, a process referred to in restructuring negotiations as comparability of treatment, has repeatedly proven to be the single biggest obstacle to a faster resolution.

6. China: From Lender to Collector

No single creditor relationship illustrates the shifting balance of the global debt system better than China's. Through its Belt and Road Initiative, launched in 2013, China disbursed more than 1.3 trillion dollars in loans to over 150 countries, financing mines, ports, power plants, railways, and telecommunications networks across the developing world, and in doing so became the world's largest bilateral creditor. Chinese state backed lending peaked in 2016 at more than 50 billion dollars in new commitments in a single year, outweighing the combined lending of all Western bilateral creditors, before falling sharply amid rising default risk, implementation difficulties, and growing caution within China's own policy banks, dropping to roughly 18 billion dollars in new commitments by 2019.



Source: Lowy Institute, Peak Repayment: China's Global Lending, 2025

That earlier lending boom is now generating its own repayment wave. According to the Lowy Institute, developing countries owed a record 35 billion dollars in debt service to China in 2025, of which roughly 22 billion dollars, about two thirds of the total, came from 75 of the world's poorest and most vulnerable countries. China's own data shows it has effectively become a net financial drain on many developing country budgets rather than a net provider of new capital, a watershed researchers describe as Beijing transitioning from capital provider to the world's largest official debt collector. In 54 of 120 developing countries with available data, debt service payments owed to China now exceed combined payments owed to the entire Paris Club of traditional Western bilateral creditors.

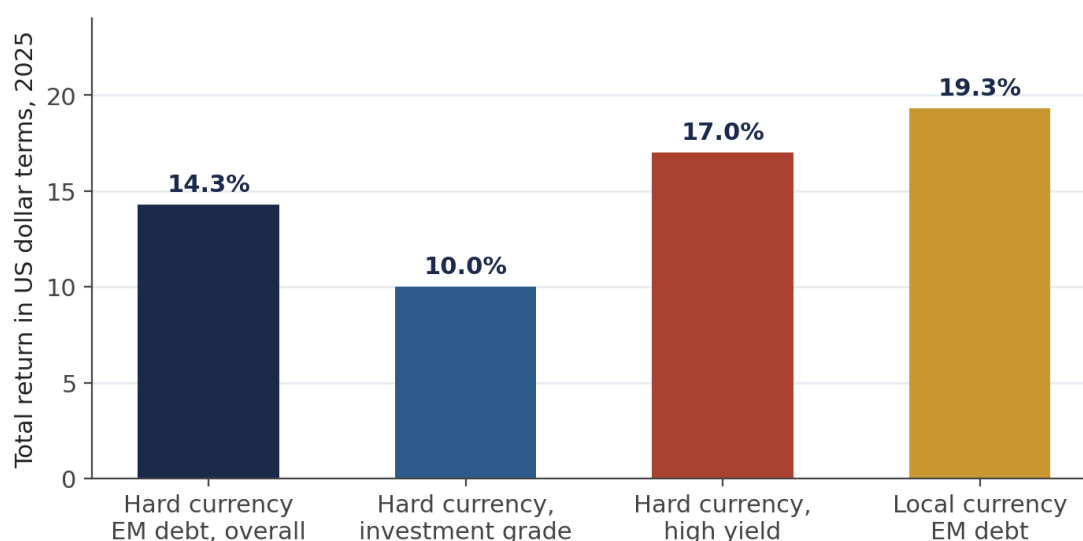
From Infrastructure to Rescue Lending, and Now to Debt Swaps

The composition of Chinese overseas lending has also changed. In 2013, China's policy banks, which fund traditional infrastructure projects, accounted for more than half of new lending; by 2021 their share had fallen to roughly 22 percent, with the People's Bank of China and China's foreign exchange regulator, mostly providing emergency currency swaps and bailout style lending, accounting for the majority instead. A small but growing group of academics and policy researchers is now exploring whether China might use its outsized creditor position constructively, through debt for nature or debt for climate swaps that would forgive a portion of a country's debt in exchange for binding conservation or climate commitments, building on smaller scale swaps that Western creditors have arranged with countries including Seychelles, Barbados, and Ecuador since the 1980s. Whether Beijing engages meaningfully with this model remains an open question, but it represents one of the more promising avenues for converting an otherwise extractive creditor relationship into something with mutual long term value.

7. How Financial Markets Are Pricing Emerging Market Risk

Set against this backdrop of mounting stress among the poorest borrowers, the behavior of financial markets toward emerging market debt as an asset class looks almost contradictory. Hard currency emerging market debt, as measured by the JP Morgan EMBI Global Diversified Index, returned 14.3 percent in US dollar terms in 2025, with high yield sovereigns returning 17.0 percent and investment grade sovereigns returning 10.0 percent on the back of tightening spreads and falling US Treasury yields. Local currency emerging market debt performed even better, returning 19.3 percent, supported by favorable currency moves and high real interest rates that allowed several emerging market central banks to ease monetary policy even as the US Federal Reserve moved more cautiously.

Emerging market debt delivered strong returns across the board in 2025



Source: JP Morgan EMBI Global Diversified Index and GBI EM Global Diversified Index, full year 2025 returns

Spreads, the extra yield investors demand to hold emerging market sovereign bonds over equivalent US Treasuries, have compressed to levels not seen since before the 2008 financial crisis, with investment grade emerging market sovereigns now trading at their tightest levels since October 2007. Foreign exchange reserves across emerging markets cover roughly 135 percent of short term external debt, broadly in line with long run historical averages, and fiscal deficits are projected to narrow modestly, from around 4.5 percent of GDP to 4.1 percent of GDP in 2026. Sovereign bond issuance is expected to reach approximately 260 billion dollars in 2026, with countries like Turkey facing some of the largest individual financing needs.

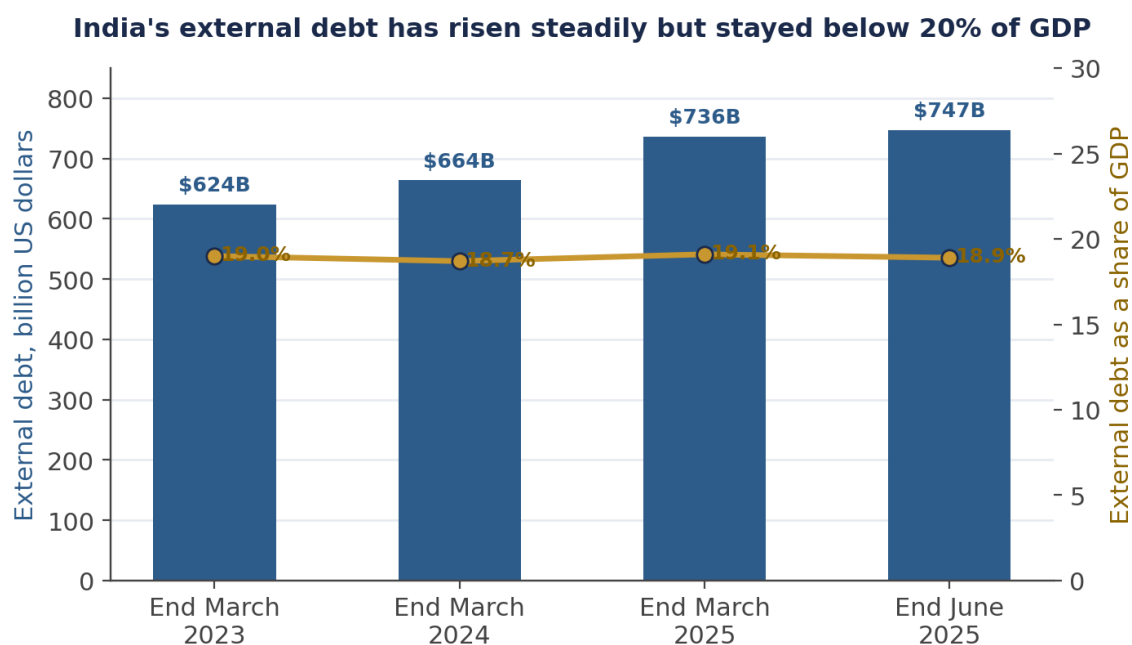
A Market Pricing Resilience, Not Distress

Taken together, these figures describe an asset class being priced for resilience rather than crisis. Growth across emerging markets overall is projected to accelerate slightly, from 3.7 percent in

2025 to 3.9 percent in 2026, though this masks sharp divergence between resilient regions such as Southeast Asia and the Middle East and weaker performers in Latin America and Eastern Europe. Analysts at several major asset managers caution that current valuations leave little room for error: with spreads this tight, the asset class is more exposed than usual to shocks from renewed US tariff escalation, a reacceleration in US inflation that delays Federal Reserve easing, or a sudden repricing of the technology and artificial intelligence related capital expenditure boom that has underpinned broader market sentiment through 2025 and into 2026. The gap between a market priced for calm and a set of low income borrowers in active distress is, in many ways, the defining feature of the current cycle.

8. Country Spotlight: India's External Debt Position

Against this global backdrop, India offers a useful point of contrast. According to the Reserve Bank of India, the country's total external debt stood at 747.2 billion dollars at the end of June 2025, up from 735.9 billion dollars at the end of March 2025 and 663.8 billion dollars a year earlier. Despite that steady rise in dollar terms, the external debt to GDP ratio has remained remarkably stable, moderating slightly to 18.9 percent at the end of June 2025 from 19.1 percent three months earlier, and has stayed within a narrow band of roughly 18 to 19 percent across the past three years.



Source: Reserve Bank of India, India's External Debt status reports, 2023 to 2025

The composition of that debt also points toward relative resilience. Long term debt, with an original maturity of more than one year, accounts for roughly 82 percent of the total, while short term debt has declined as a share of the overall stock. Commercial borrowings drove much of the increase in external debt over the 2025 fiscal year, rising by a record 41.2 billion dollars year on year, alongside increases in non resident Indian deposits and, to a smaller degree, multilateral and bilateral official debt. Critically, foreign exchange reserves cover more than 93 percent of India's total external debt, providing a substantial buffer against the kind of reserve depletion that triggered defaults in Sri Lanka and Zambia.

A Different Kind of Debt Story

It is worth distinguishing this external debt picture from India's broader public debt position. Combined central and state government gross debt sits at roughly 82 percent of GDP, a level that, in isolation, sits in the middle of the pack globally, lower than developed economies such as

Japan or the United States that benefit from reserve currency status, but higher than some emerging market peers. The more relevant point for this report's focus on external vulnerability is that the overwhelming majority of that public debt is denominated in rupees and held domestically, which means India is far less exposed to the currency mismatch risk that has driven the defaults profiled in this report. Rating agencies and analysts at firms including ICRA expect the rupee to remain under modest pressure through 2026 amid geopolitical uncertainty and evolving trade negotiations with the United States, and India's current account deficit is projected to widen somewhat in the 2026 fiscal year, but neither development currently points toward the kind of acute external financing stress visible elsewhere in the emerging market universe.

9. Climate, Nature, and the New Generation of Debt Instruments

One of the more constructive developments to emerge from the current debt cycle is the growing use of debt swaps as a tool for reconciling fiscal sustainability with environmental and development goals. Debt for nature swaps, in which a creditor forgives or restructures a portion of outstanding debt in exchange for a borrower's binding commitment to fund conservation or climate adaptation programs, are not a new idea; Western commercial creditors have experimented with versions of these instruments since the 1980s. What has changed is their scale and visibility. In recent years, countries including Seychelles, Barbados, and Ecuador have executed debt swaps with private creditors that mobilized hundreds of millions of dollars for marine conservation and other environmental priorities, often structured with the support of multilateral development banks or specialized insurers that reduce the credit risk for participating creditors.

The open question, explored increasingly by researchers at institutions such as Boston University's Global Development Policy Center, is whether China, as the developing world's single largest bilateral creditor, can be drawn into this model at scale. Given that debt service to China alone now totals 35 billion dollars a year from developing countries, even a modest reallocation of a portion of that burden into climate or nature linked swaps could unlock meaningful new financing for adaptation and conservation, particularly in small island states and resource dependent economies that are simultaneously among the most climate vulnerable and the most heavily indebted. China has signaled openness to expanding financial cooperation with developing nations, including commitments made at recent China Africa cooperation forums, though it has so far been more cautious about formal debt for nature mechanisms than some Western creditors. For governments managing both a debt overhang and acute climate exposure, these instruments represent one of the few tools currently available that can address both problems simultaneously rather than forcing a trade off between debt sustainability and environmental investment.

10. Strategic Implications

For Investors and Asset Allocators

The compression in emerging market spreads to near record tight levels argues for selectivity rather than broad based exposure. Differentiating between investment grade sovereigns with genuine market access and lower rated, single B and below credits where idiosyncratic political and restructuring risk dominates returns will likely matter more for performance in 2026 than broad emerging market beta. Local currency debt, supported by elevated real interest rates and a softer dollar, offers a different risk profile than hard currency debt and deserves separate consideration within a diversified allocation. Investors should also watch the EMBI spread closely as a leading indicator: historically, moves through roughly 200 basis points have preceded sharper, more disorderly price moves across the asset class.

For Governments and Policymakers

The widening gap between debt service obligations and new financing for the poorest economies points to an urgent need for reform of the international debt architecture, particularly the speed and predictability of the G20 Common Framework. Debt transparency, ensuring that the true scale and terms of a country's borrowing, including from non traditional creditors, are fully disclosed, remains one of the most cost effective interventions available, since it is consistently associated with lower borrowing costs and faster, less contentious restructuring outcomes when distress does occur. For finance ministries in countries that have so far avoided default, the lesson from Sri Lanka, Zambia, Ghana, and Ethiopia is less about any single policy error and more about the speed with which reserve depletion and market access can disappear once a currency shock or a global rate shock arrives. Maintaining conservative external debt management, as India has done, is not a guarantee against future stress, but it materially widens the margin for error.

For a Student Led Consulting Firm

For an organization like Altivus, sovereign debt and emerging market risk sit squarely at the intersection of the skill sets we are trying to build: reading primary data from institutions like the IIF, the IMF, and the World Bank rather than relying on secondary commentary, understanding how debt sustainability analysis actually works rather than treating debt to GDP as a single sufficient metric, and being able to translate a complex multilateral negotiation, such as a Common Framework restructuring, into a clear narrative for a non specialist audience. This is precisely the kind of analytical work that distinguishes a credible research output from a superficial one, and it is a useful template for how we should approach future reports across other areas of economics, finance, and strategy.

11. Outlook and Scenarios, 2026 to 2030

Three broad scenarios seem plausible for how the current debt cycle resolves over the remainder of the decade, and the path that materializes will depend heavily on decisions outside the control of any single government.

Scenario One: Orderly Continuation

In the most benign scenario, global growth remains resilient, inflation continues to ease gradually, and major central banks complete a soft landing that allows interest rates to settle at levels meaningfully below the peaks of 2022 and 2023 without reigniting price pressures. Under this path, emerging market spreads stay broadly range bound near current tight levels, refinancing proceeds smoothly despite the record 2026 wall of maturities, and the handful of countries still in active restructuring, including Zambia and Ethiopia, reach final agreements that allow them to regain market access by the end of the decade. This is broadly the scenario currently priced into emerging market debt valuations.

Scenario Two: A Renewed Stress Episode

A less benign path involves a shock, whether from renewed US tariff escalation, a reacceleration in inflation that forces the Federal Reserve back into a tightening posture, or a disorderly repricing of the artificial intelligence related capital expenditure boom that has driven a meaningful share of recent corporate borrowing and equity market gains. Any of these could trigger a sharp strengthening of the US dollar and a corresponding widening in emerging market spreads, reintroducing the kind of currency and refinancing stress that pushed Sri Lanka, Zambia, and Ghana into default in 2022. Given how tightly spreads are currently priced, with limited room to compress further, the asymmetry of risk in this scenario leans toward sudden, sharp adjustment rather than gradual repricing.

Scenario Three: Structural Reform of the Debt Architecture

A third, more constructive path involves meaningful reform of the international debt restructuring system itself: a faster, more predictable Common Framework process, broader adoption of debt transparency standards, and a scaling up of debt for climate and debt for nature instruments that allow vulnerable countries to address fiscal and environmental challenges together rather than sequentially. This path would not eliminate sovereign defaults, which are a recurring feature of the international financial system rather than an aberration, but it would shorten the time countries spend in costly, growth destroying limbo between default and resolution. Multilateral institutions, the G20, and major creditor governments including China and the United States would all need to engage more constructively than they have to date for this scenario to materialize at scale.

Conclusion

Global debt has never been larger in absolute terms, and the world's capacity to service it has rarely been more unevenly distributed. A small number of large, mostly advanced and large emerging economies are absorbing the bulk of new borrowing at interest rates that, while higher than a decade ago, remain manageable given their scale and market access. A much larger number of low income and lower middle income countries are caught in a genuinely difficult position: debt service costs at multi decade highs, a restructuring architecture that remains slow and contested, and a primary external creditor, China, that has itself become a net drag on their finances rather than a source of growth capital.

Financial markets have, for now, chosen to look past this divergence, pricing emerging market debt as an asset class for resilience rather than risk. That gap between underlying fundamentals in the most vulnerable economies and market sentiment in the broader asset class will not persist indefinitely. Whether it closes through an orderly improvement in the weakest economies' fortunes, a disorderly repricing triggered by an external shock, or genuine reform of how the world manages sovereign distress, is likely to be one of the defining economic stories of the remainder of this decade, and one that this report's authors intend to keep tracking closely.

Appendix A: Data Tables

Table A1: Global Debt Trajectory

Period	Total global debt	Debt to GDP ratio
Q1 2020	258 trillion dollars	331 percent
Full year 2023	313 trillion dollars	approximately 330 percent
Q1 2025	324 trillion dollars	approximately 325 percent
Q3 2025	346 trillion dollars	not separately reported
Full year 2025	348 trillion dollars	not separately reported
Latest reading, 2026	353 trillion dollars	305 percent

Table A2: Sovereign Default and Restructuring Cases

Country	Default year	Restructuring outcome
Sri Lanka	2022	Restructuring targeting public debt to GDP of 110 percent by 2028
Ghana	2022	Bondholders accepted a 37 percent haircut on 13 billion dollars of debt in 2024; target debt to GDP of 55 percent by 2028
Zambia	2020	6.3 billion dollar deal, including 4.1 billion dollars restructured with China, though implementation has faced delays
Ethiopia	2023	Eurobond default; private creditors rejected a partial payment offer implying a 20 percent loss
Argentina	2019 to 2020	Combined domestic and external debt restructuring under a market access framework

Table A3: India External Debt Snapshot

Period	External debt	Debt to GDP ratio
End March 2023	624.1 billion dollars	19.0 percent
End March 2024	663.8 billion dollars	18.7 percent
End March 2025	735.9 billion dollars	19.1 percent
End June 2025	747.2 billion dollars	18.9 percent

Appendix B: Glossary of Key Terms

- Sovereign debt: borrowing undertaken by a national government, typically through bonds or loans, to finance spending beyond what current revenue can cover.
- Debt to GDP ratio: a country's total debt expressed as a percentage of its annual economic output, used as a broad, though imperfect, measure of debt sustainability.
- Hard currency debt: sovereign debt issued in a currency other than the borrower's own, typically US dollars or euros, which exposes the borrower to currency mismatch risk.
- Local currency debt: sovereign debt issued and repayable in the borrower's own currency, which shifts currency risk toward the lender rather than the borrower.
- EMBI: the JP Morgan Emerging Markets Bond Index, a widely used benchmark that tracks the price and yield of hard currency emerging market sovereign bonds.
- Spread: the additional yield investors demand to hold a riskier bond, such as an emerging market sovereign bond, relative to a benchmark such as US Treasuries; a widening spread signals rising perceived risk.
- Debt restructuring: a negotiated change to the terms of outstanding debt, which may include extending maturities, reducing interest rates, or writing down the principal owed, undertaken when a borrower cannot meet its original obligations.
- Haircut: the percentage reduction in the value of debt that creditors agree to accept as part of a restructuring.
- G20 Common Framework: a process established in 2020 to coordinate sovereign debt restructuring between traditional Paris Club creditors and newer official lenders, most notably China, for low income countries.
- Comparability of treatment: the principle, central to most sovereign debt restructurings, that different classes of creditors should bear broadly similar relative losses.
- International Development Association, IDA: the arm of the World Bank that provides low cost loans and grants to the world's poorest countries.
- Debt for nature swap: an arrangement in which a portion of a country's debt is forgiven or refinanced on favorable terms in exchange for a binding commitment to fund conservation or climate programs.
- Refinancing risk: the risk that a borrower will be unable to roll over maturing debt on affordable terms when it comes due.

Sources and References

This report draws on primary data and analysis from the Institute of International Finance Global Debt Monitor, the International Monetary Fund Global Debt Database and country staff reports, the World Bank International Debt Report 2025 and International Debt Statistics database, the Reserve Bank of India and India's Ministry of Finance external debt status reports, the Lowy Institute's Peak Repayment research on Chinese global lending, the Carnegie Endowment for International Peace, the Boston University Global Development Policy Center, and market commentary from JP Morgan, State Street Global Advisors, Allianz Global Investors, PineBridge Investments, and CreditSights. All figures are the most recently available at the time of writing and are subject to revision as underlying institutions update their datasets.

Prepared by the Altivus Research Desk. For questions or feedback on this report, please reach out through Altivus.