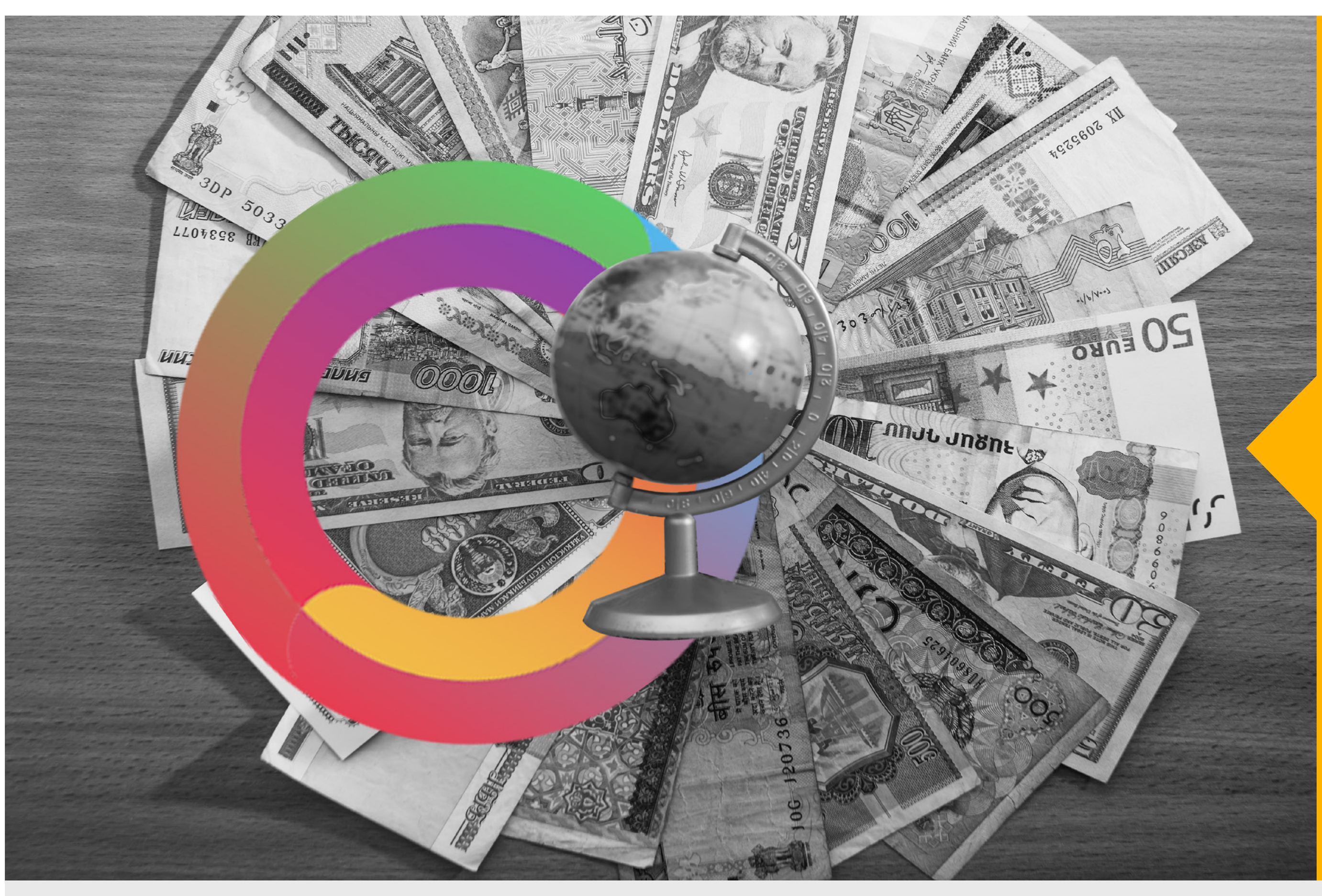
SOUTHERN VOICE

What could ensure debt sustainability in the Global South?



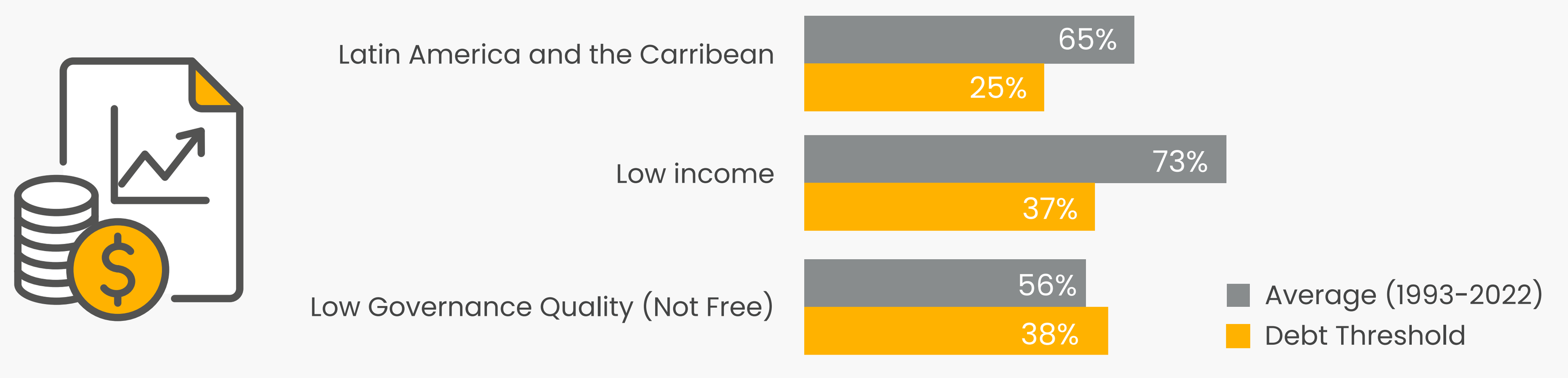
The annual Sustainable Development Goals (SDG) financing gap is estimated a USD 2,5-3 trillion, yet developing economies spent **USD 443.5 billion on debt servicing** in 2022.

Why is debt sustainability crucial?

Rising public debt puts a strain on the ability of developing countries to meet basic needs, placing them at a heightened risk of default. This threatens both global financial stability and sustainable development and highlights the need for urgent meaningful reforms. Based on a literature review and dynamic panel threshold regression, we examined mechanisms to secure debt sustainability in the Global South.

Findings show that:

1. Debt thresholds vary across regions, income levels, and governance quality. Significant threshold effects are observed in the **Latin America and Caribbean region** (25% of GDP), **low-income countries** (37%), and countries with **poor governance** (38%).



2. Countries with stronger **governance** can sustain higher debt levels without compromising growth, whereas poor governance exacerbates **debt vulnerabilities.**

3. Reducing reliance on borrowing requires **expanding non-debt financial mechanisms** such as improved taxation, increased flow of official development assistance, strengthened South-South cooperation, and enhanced foreign direct investment.

To build a more equitable financial system, we must:

- **Limit borrowing to development investments.** Governments across the Global South should direct debt towards financing projects aligned with development priorities, such as infrastructure and social services.
- **Maintain a safe threshold.** Keeping debt below safe thresholds is key to fostering growth in developing economies. Independently measured safe debt-thresholds can be introduced as a complementary tool to debt sustainability analyses.
- **Build capacity in sustainable debt management.** Global finance actors can support Global South nations by adopting active debt management practices, such as repurchases, cancellations and debt-for-nature swaps. Providing early resolutions can also ensure efficient debt restructuring.
- **Fund country-specific research.** Investment in single-country studies is vital to improve debt management practices tailored to local economic, social, and governance contexts. Increased research funding can help identify and overcome country-specific structural deficiencies.

Current **global finance is dysfunctional:** the European Union received USD 160 billion in emergency assistance in 2021, compared to the **USD 34 billion** received by Africa. Structural reforms are necessary to level the field.

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