



## Research Report

Economic and Social Council (ECOSOC)

Issue 1: Addressing the global debt crisis  
and its impact on economic stability in  
developing nations

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# Introduction

The global debt crisis is one of the most significant economic and social issues that impacts the stability, growth and development of most developing countries. Essentially, the crisis occurs when nations become indebted at a rate which they are unable to repay, leading to unsustainable debt levels, financial imbalances and economic instability. In some cases, debt can be an instrument of development, as it enables states to invest in infrastructure, healthcare, and education. However, the combination of excessive borrowing, an increase in interest rates and external shocks to the economy has left many countries unable to afford the supply of even basic public services and goods. This issue is especially evident amongst LEDCs\* due to lack of access to low-interest loans, reliance on unstable global markets and the lack of fiscal and institutional capacity to effectively deal with debt.

In the past decade, the world has faced a number of factors that have worsened the situation. The COVID-19 pandemic compelled governments to borrow money excessively to fund health care systems, drive economic recovery, and alleviate unemployment. However, inflation and increased interest rates in MEDCs\* as a result of tightening monetary policies have also contributed to the high cost of debt servicing, and this has made the cost of repaying the debt even more challenging for LEDCs. Other strains on already weak economies include geopolitical tensions, energy pricing challenges, and climate-related disasters. Nations such as Zambia, Sri Lanka, and Ghana exemplify the difficulties faced by developing countries, highlighting the risks of sovereign default\*, currency devaluation\*, and subsequent social unrest\*.

This crisis has far-reaching international implications. Unmanaged debt will create economic instability that will spill over to the global markets, interfere with trade and derail development gains, especially in areas already susceptible to poverty and inequality. The solution to the crisis thus involves multilateral efforts of debtor countries\*, creditor countries\*, international financial institutions, and multilateral organisations like the United Nations. The solutions need to be coordinated to make sure that the efforts of debt relief stabilise economies in the short term and lead to sustainable growth, resilience and equitable development in the long run. (Anything with an Asterix is defined in key terms.)

# Definition of Key Terms

**LEDCs:**

Low economically developed countries

**MEDCs:**

More economically developed countries

**Sovereign Default:**

A situation where a national government fails to repay its debt on time

**Currency Devaluation:**

A situation where a nation's government officially lowers the value of its currency in comparison to other nations due to factors such as high inflation, a large trade deficit, and loss of investor confidence

**Social Unrest:**

A state of public dissatisfaction/disappointment leading to strikes and protests

**Debtor Countries:**

Nations that have borrowed money from external or domestic lenders and are legally obligated to pay it back with interest

**Creditor Countries:**

Nations from which money is borrowed, expecting a repayment with interest

**Sovereign Debt:**

Money borrowed by a national government from domestic or international lenders

**Debt Servicing:**

The repayment of interest and principal on borrowed funds

**Debt Distress:**

A situation in which a country cannot meet its debt obligations without restructuring or external assistance

**Multilateral Debt:**

Debt owed to international financial institutions such as the International Monetary Fund or the World Bank

**Bilateral Debt:**

Debt owed by one country to another

**Private Creditors:**

Commercial banks, bondholders, and private financial institutions that lend to governments

**Debt Restructuring:**

The process of renegotiating the terms of debt to reduce financial burden, often through extended repayment periods or reduced interest rates

**Sustainable Development Goals (SDGs):**

Seventeen global goals adopted by the United Nations in 2015 aimed at ending poverty, protecting the planet, and ensuring prosperity by 2030

## Background

The global debt crisis can be traced back to the 1970s when most developing countries started to borrow money in large amounts in order to fund their industrialisation, infrastructure and social development projects. Low interest rates across the world and the availability of credit by international lenders stimulated mass borrowing during this period. Nevertheless, economic crises of the 1980s, such as oil price shocks and the world recession, caused the notorious Latin American debt crisis, exemplifying the risks of over-borrowing by sovereign states. Debt obligations became extremely difficult to repay in countries like Mexico, Brazil and Argentina to the extent that they had to be restructured under international intervention.

To deal with the crises of the past, international financial institutions came up with mechanisms that assisted in debt relief and restructuring. In 1996, the World Bank and the International Monetary Fund (IMF) created the Heavily Indebted Poor Countries (HIPC) Initiative in order to alleviate the debt burden of the poorest countries in the world and to give them space to deliver the necessary public services. These initiatives were focused on sustainability in debts, macroeconomic reforms and alignment of borrowing to development objectives. These efforts were later supported by the Multilateral Debt Relief Initiative (MDRI), which cancelled certain debts to qualifying countries, as an increasing number of countries realized debt distress can be an impediment to long-term development.

Irrespective of such efforts, the debt situation in the world has changed, and new issues have arisen. Governments in countries like Zambia, Sri Lanka, Ghana and Argentina were under extreme economic pressure during the COVID-19 pandemic, and emergency borrowing has driven debt-to-GDP ratios to historic highs. In the case of Zambia (the first African nation to default in the pandemic period), the government had to pay more money than its fiscal resources, which caused a social and economic breakdown. In Sri Lanka in 2022, a mix of the lack of foreign currency, inflation, and an increase in debt led to a similar collapse. Fiscal deficits and currency devaluation in Ghana made the relative stability of even relatively stable economies vulnerable. The debt crisis experienced in Argentina especially depicts the problematic nature of sovereign debt in the long term, such as inflation, currency instability and repeated restructuring.

Vulnerabilities have also been increasing due to surges in global interest rates and currency mismatches. Most developing countries take out loans in foreign currencies, and therefore any slight change in the exchange rates or interest rates will drastically raise the cost of servicing the debts. Meanwhile, there is an increasing role of the private creditors (commercial banks and bondholders) compared to before, which complicates the process of restructuring negotiations. The bilateral debt, especially the loans of some countries such as China, also makes it difficult to coordinate the relief efforts since there are multiple creditors with different priorities to consider in solution-making.

Previous international responses have aimed to resolve these issues. The Debt Service Suspension Initiative (DSSI) and the following Common Framework of Debt Treatments of the G20 offer temporary relief and restructuring efforts. The adoption has, however, been low, and most countries are still at risk. The United Nations has been intensifying its focus on the importance of ensuring long-term, holistic measures to foster debt sustainability, financial transparency and fair economic governance. In the absence of multilateral collaboration and creativity, the debt crisis will threaten the achievements in the Sustainable Development Goals and cause a wider instability of the global financial system.

# Major Countries and Organisations Involved

## **International Monetary Fund:**

The IMF provides emergency financial assistance and policy advice to countries in debt distress. While it supports restructuring and stabilisation programs, its conditional lending policies are often debated due to austerity requirements.

## **World Bank:**

The World Bank supports long-term development projects and debt sustainability analysis. It advocates for transparency and coordinated restructuring efforts.

## **Group of Twenty (G20):**

The G20 launched the Debt Service Suspension Initiative and the Common Framework to coordinate debt relief among major economies and creditors.

## **China:**

China has become one of the largest bilateral lenders to developing nations, particularly through infrastructure financing. Its participation is essential for comprehensive debt restructuring.

## **United States:**

As a major shareholder in international financial institutions and a global economic power, the United States influences debt relief policies and global monetary conditions.

## **Zambia:**

Zambia became one of the first African countries to default during the COVID-19 era, highlighting the urgency of coordinated restructuring mechanisms.

**Sri Lanka**

Sri Lanka defaulted on its external debt in 2022 following a severe economic crisis marked by foreign currency shortages, inflation, and political instability. Its case highlights how debt mismanagement, external shocks, and limited foreign reserves can rapidly escalate into national economic collapse. Sri Lanka's restructuring negotiations with bilateral and private creditors demonstrate the complexity of coordinating multiple lenders.

**Argentina**

Argentina has experienced repeated sovereign debt crises over the past decades and remains one of the largest borrowers from the International Monetary Fund. Its situation illustrates the longterm challenges of inflation, currency depreciation, and restructuring cycles. Argentina often advocates for more flexible repayment conditions and reforms to global debt governance systems.

**Ghana**

Ghana entered debt distress in 2022 due to high borrowing costs, currency depreciation, and fiscal deficits. As a lower-middle-income country with strong development potential, Ghana's crisis underscores how even relatively stable economies can become vulnerable to global financial shocks. Its participation in restructuring discussions under the G20 Common Framework reflects the growing debt vulnerability across Africa.

**United Nations:**

Through the Economic and Social Council and other bodies, the United Nations promotes dialogue on sustainable development financing and equitable global economic governance.

# Possible Solutions

## **Improved Debt Restructuring Mechanisms**

Strengthening the G20 Common Framework to ensure faster, more inclusive, and transparent restructuring processes involving both private and public creditors.

## **Debt-for-Climate and Debt-for-Development Swaps**

Allowing countries to reduce debt obligations in exchange for investments in climate resilience, environmental protection, or social development programs.

## **Enhanced Debt Transparency**

Creating international standards requiring full disclosure of loan terms to prevent hidden liabilities and improve accountability.

## **Reform of International Financial Institutions**

Revising voting structures and lending conditions within institutions such as the IMF and World Bank to better reflect the interests of developing nations.

## **Expansion of Concessional Financing**

Providing low-interest or grant-based financing to vulnerable countries to reduce reliance on high-interest borrowing.

## **Establishment of a Sovereign Debt Workout Mechanism**

Developing a formal, UN-backed legal framework for sovereign debt restructuring to ensure fairness and predictability.

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