TA Tomorrow's Affairs

Analysis of today
Assessment of tomorrow

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Approaching deadlines and options for solving the debts of underdeveloped economies

We remember Pope Francis calling for the cancellation of the debts of the poorest countries to the developed economies at the 2024 Christmas mass.

This call paralleled the initiatives of 2000, when more than USD 130 billion of developing countries' debt was cancelled thanks to international campaigns.

With global debt that exceeded USD 100 trillion in 2024, the Jubilee Commission of Experts was founded at the end of February in collaboration with the Pontifical Academy of Social Sciences and Columbia University's Initiative for Policy Dialogue.

Joseph E. Stiglitz, the Nobel Prize winner, leads the team, whose task is to present recommendations for a fundamental reform of the international financial system by June 2025.

At the spring meetings of the World Bank and the International Monetary Fund, it was announced that global public debt will reach 95.1% of global gross domestic product in 2025, which corresponds to an increase of 2.8 percentage points compared to 2024.

In the baseline projection, the IMF expects an increase to 99.6% by 2030, while the "very unfavourable" scenario predicts a jump to 117% by 2027 under the influence of increasing trade tensions and rising interest rates.

World Bank data also shows that developing countries spent USD 1.4 trillion, or around 4% of their gross national income (GNI), on debt servicing in 2023.

No fewer than 54 countries spend more than 10% of their tax revenues on interest. This means that instead of investing in education, renewable technologies, climate adaptation, and social programmes, governments are repaying loans with high interest rates.

Stopping the support movement

The movement initiated by the Commission has gained momentum thanks to the commitment of the United States of America to invest USD 4 billion in the World Bank's International Development Association.

So far, however, not a single dollar has been disbursed. Instead, the US budget proposal for the 2025 financial year provides for USD 3 billion, spread over the next three years.

At the same time, Japan and Canada announced in March that they would be cutting their own funding, putting the target of USD 100 billion for favourable loans to the poorest countries in serious jeopardy and leaving 59 countries on the brink of default.

The death of Pope Francis temporarily halted the commission's work. The plan was for the recommendations to be adopted before the start of the conclave scheduled for 7 May. Until a new pope is elected, the commission's work remains on hold without a final mandate.

A rise in yields would increase debt servicing costs for governments—further limiting fiscal space for investment in social programmes and environmental projects

In a February report, Goldman Sachs warned that 10-year government bond yields in the G10 countries are already at the upper end of their recent range of 3.5–5% and could rise further without an emergency debt relief package.

Such a rise in yields would increase debt servicing costs for governments—further limiting fiscal space for investment in social programmes and environmental projects— and in the long term could turn the ongoing debate on the sustainability of public finances into a global push for new austerity measures.

The key dates that will decide the fate of the Jubilee 2025 initiative are 15–17 October, when the World Bank and IMF meet in Washington to finalise the figures for the IDA fund and consider the Commission's recommendations, and 22–23 November, when heads of state at the G20 summit in Johannesburg will face the task of politically endorsing the pledges and setting deadlines.

Necessary innovative instruments

For these reforms to really relieve the budgets of poor countries, innovative instruments need to be introduced.

One proposed model involves the automatic deferral of interest payments in the event of natural disasters or economic shocks. Another idea envisages reducing the principal debt in proportion to the decline in exports by more than 5% per year.

The introduction of "social clauses" makes repayment conditional on improvements in the areas of education, health, and environmental protection. Any restructuring agreement must be fully transparent, and all details must be publicised to eliminate the risk of non-transparent agreements and corruption.

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In a June 2024 Oxfam report from Lilongwe, Malawi, teacher Grace Mkandawire told researchers that the state spent 8% of its budget on debt servicing in 2023, leaving her school without money for even basic textbooks.

The aim of the report was to show how debt servicing directly affects the functioning of basic services in education, health, and infrastructure. The findings were intended for decision-makers at the G20 and multilateral banks so that the insight into the human consequences of debt would become an unavoidable argument in negotiations on reforming the international financial system.

Similarly, at a ministerial conference in Maputo in 2023, the Mozambican government introduced a six-month moratorium on debt payments after Cyclone Freddy had previously destroyed coastal villages but never adopted a permanent legal framework for such a measure.

Debt cancellation—an instrument of development

These cases demonstrate that without long-lasting and comprehensive mechanisms, these states continue to be trapped in a vicious cycle of financial strain from which they are unable to escape.

One example of success is the Heavily Indebted Poor Countries (HIPC) Initiative launched in 1996. By 2006, a total of over USD 130 billion in debt had been cancelled for 36 countries, resulting in annual savings of around 2% of their GDP.

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This model has shown that with clear criteria and strong political will, tangible results can be achieved.

Today we have the opportunity to surpass the HIPC. However, if we cannot show measurable results by 23 November at the G20 summit, the Jubilee 2025 initiative will remain just a symbol of moral support with no real impact.

Poor countries will be forced to make drastic cuts in education, healthcare, and infrastructure investment, which will further exacerbate political and social tensions.

The success of the reform depends on turning rhetorical appeals into an operational framework. Because of its moral authority and historical legacy, the Vatican is calling on the World Bank, the IMF and the G20 to act together.

Debt cancellation must become an instrument of lasting development, not temporary relief.

If we do not see measurable results by the end of November, the world will face a wave of political and social unrest in the countries most affected by the failure of financial reforms.