Source: Mohan, 2026

SOVEREIGN DEBT AND THE CLIMATE CRISIS

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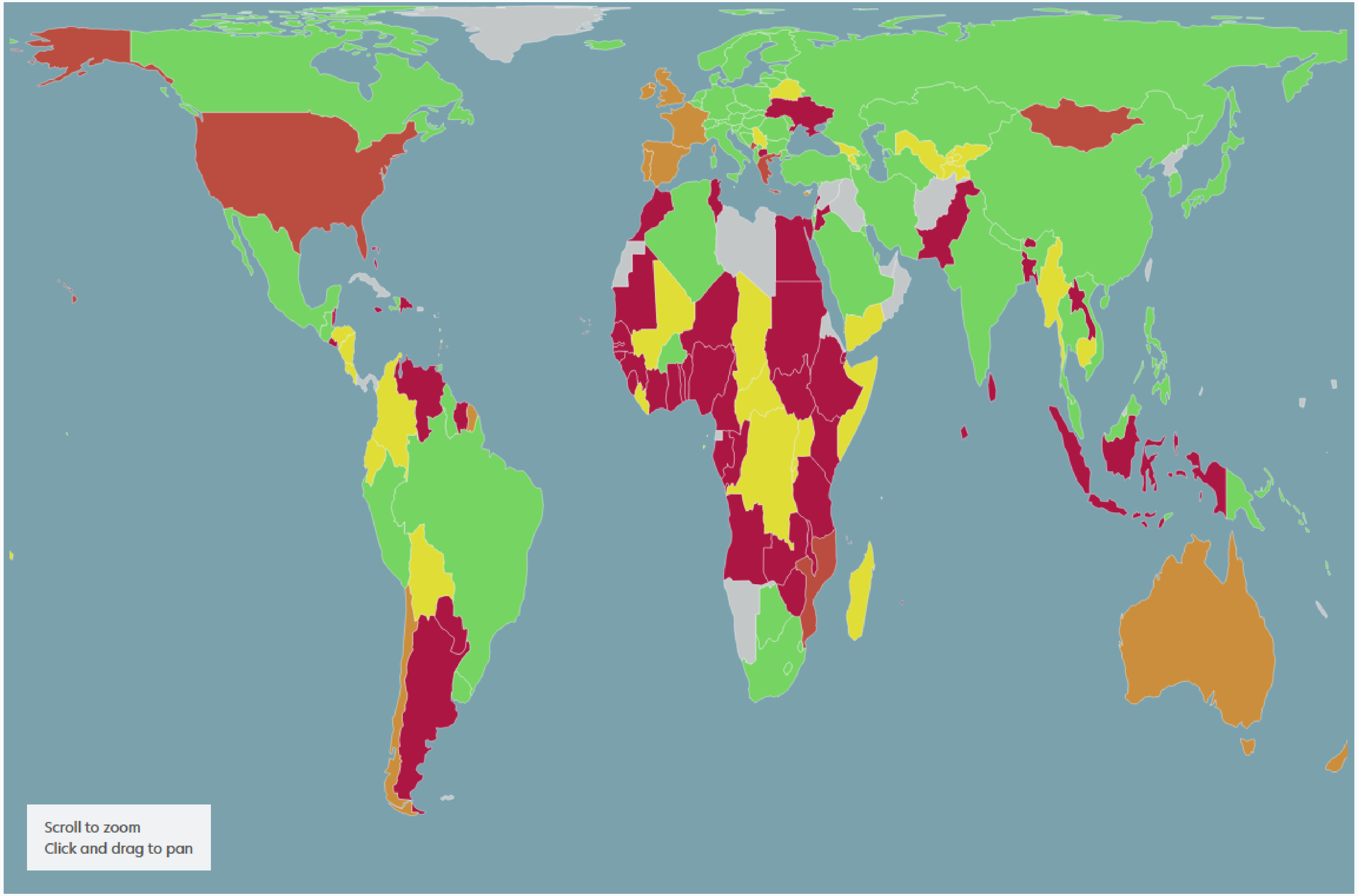


Our risk analysis of countries

Select year: 2024

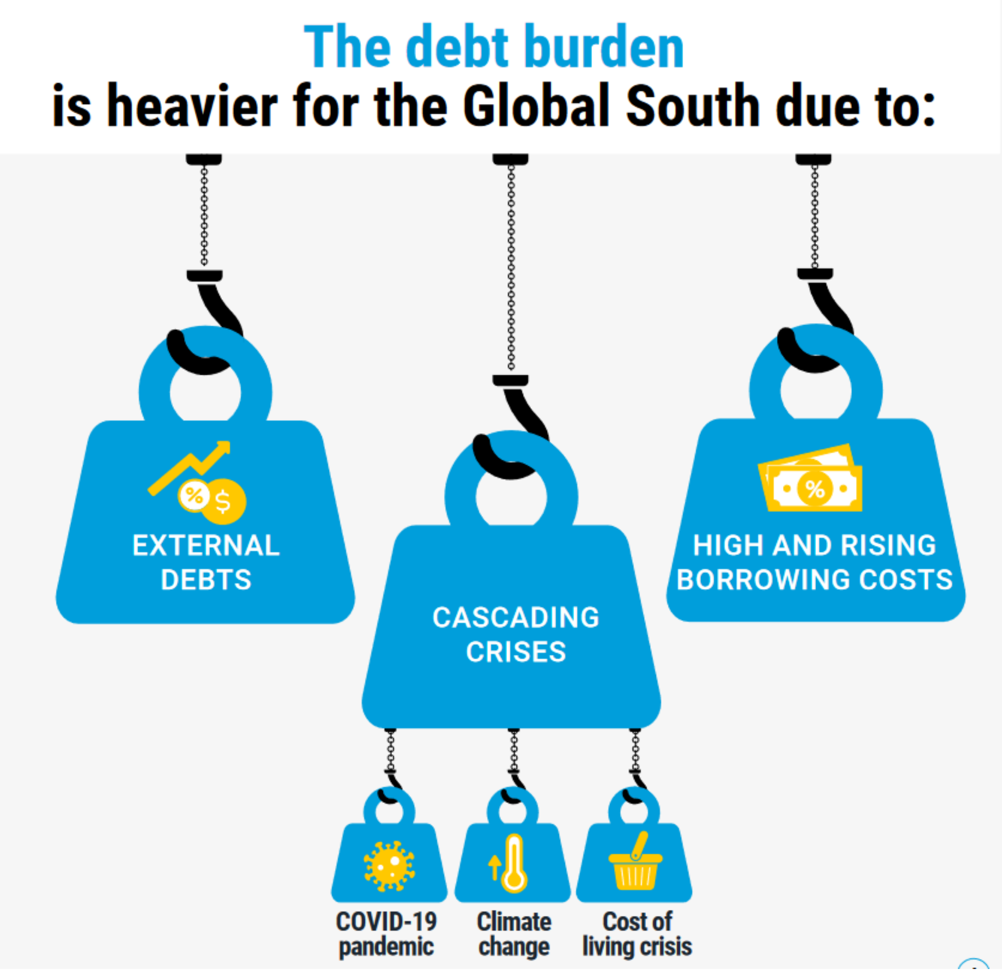
- In debt crisis
- Risk of public and private debt crisis
- Risk of private debt crisis
- Risk of public debt crisis
- No risk identified
- N/A

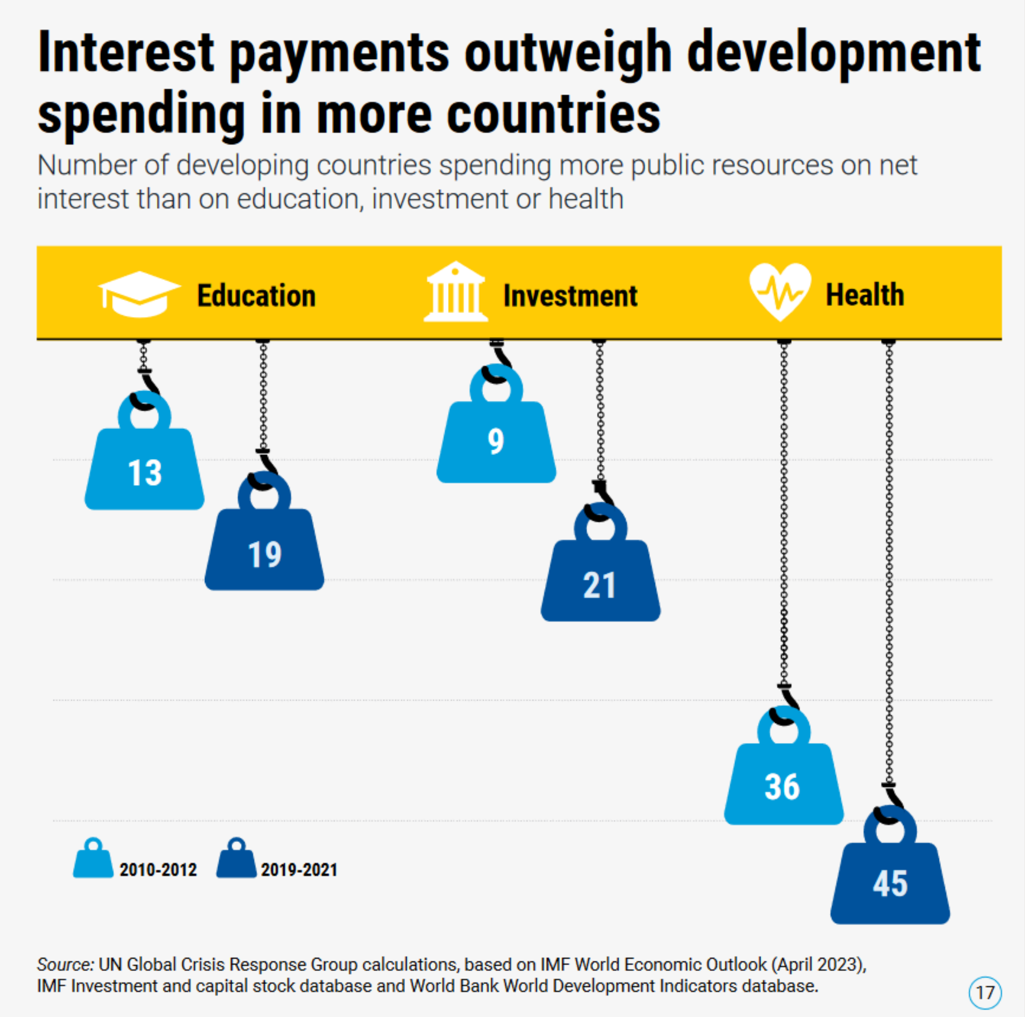
A debt crisis is where debt payments undermine a country's economy and/or the ability of its government to protect the basic economic and social rights of its citizens. Debt crises can be caused by debt owed by governments, or by debts owed by the private sector, ie, businesses, banks and households. Private debt can lead to a financial crisis, which then passes debt on to the public. Our analysis identifies countries at risk of a debt crisis caused by public debt, those at risk from private debt, and those at risk from both.

You can read more detail about our analysis and methodology in the 'Our risk Analysis' section.

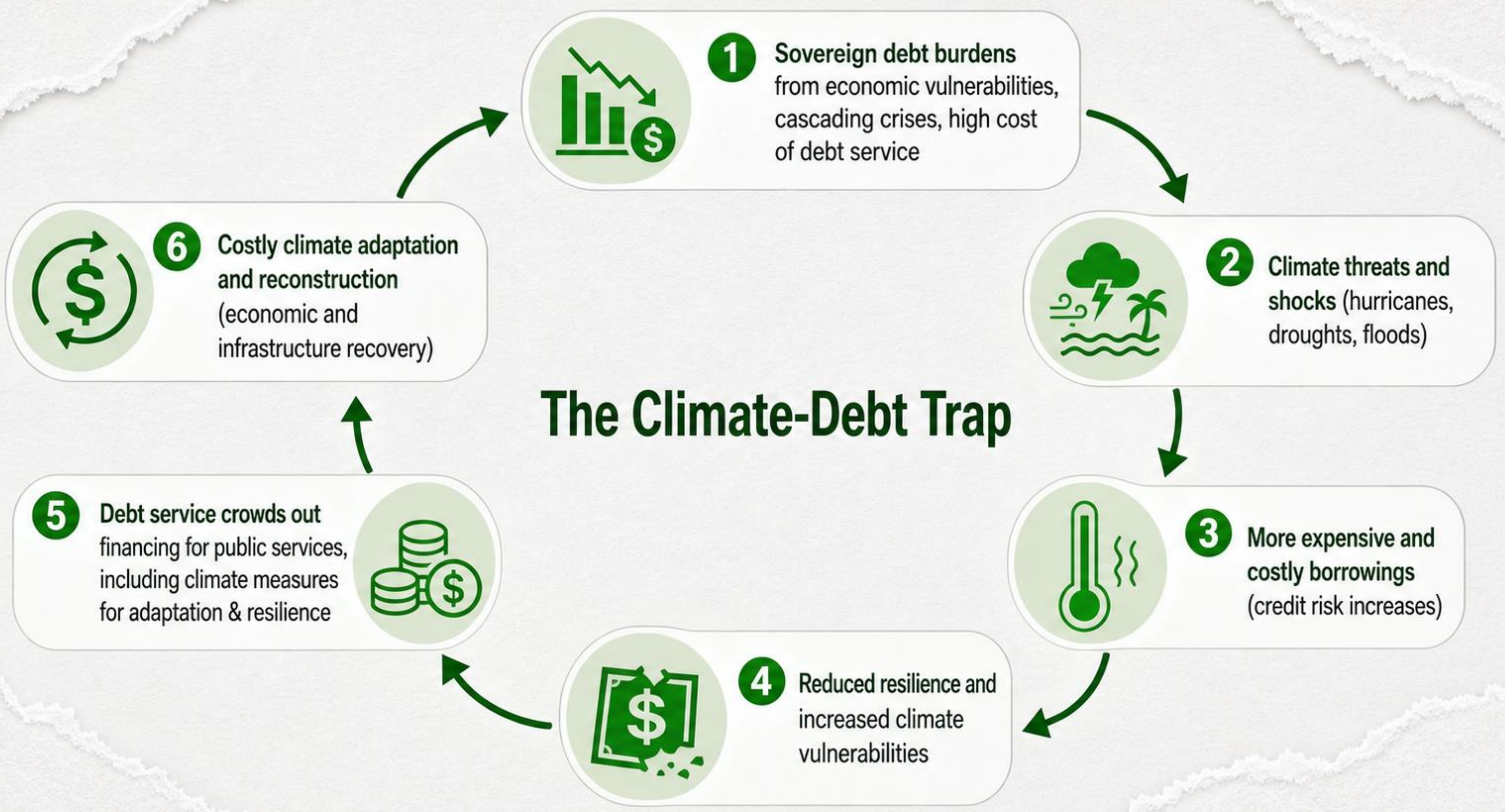
Source: Calculations by Debt Justice

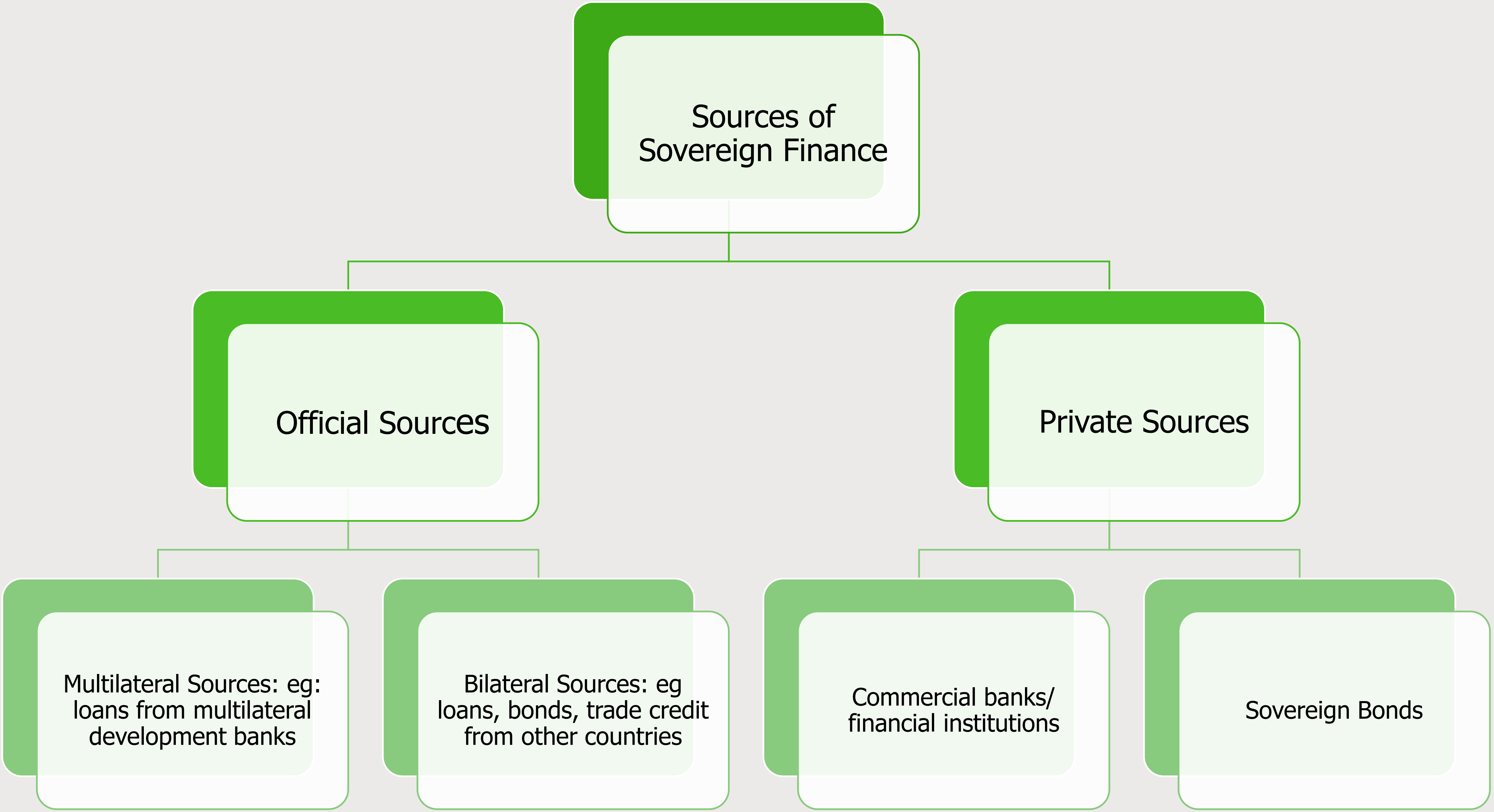
Source: Debt Justice Now





Source: [UNCTAD]


The Climate-Debt Trap
1 Sovereign debt burdens from economic vulnerabilities, cascading crises, high cost of debt service
2 Climate threats and shocks (hurricanes, droughts, floods)
3 More expensive and costly borrowings (credit risk increases)
4 Reduced resilience and increased climate vulnerabilities
5 Debt service crowds out financing for public services, including climate measures for adaptation & resilience
6 Costly climate adaptation and reconstruction (economic and infrastructure recovery)


Sources of Sovereign Finance
Official Sources
Private Sources
Multilateral Sources: eg: loans from multilateral development banks
Bilateral Sources: eg loans, bonds, trade credit from other countries
Commercial banks/ financial institutions
Sovereign Bonds

Debt pause clauses: Suspends debt service in debt contracts (loans and bonds) for a period when a climate event trigger is met (eg hurricane, typhoon of specific severity). Limited to specific contract.

Debt swaps: Debt relief on debt service but savings to go to climate action or biodiversity conservation. Bilateral debt relief usually comes from ODA, reducing limited overall ODA pot. Commercial debt swaps can be complex. Policy and expenditure choices may not be determined by sovereign state.

Green bonds: Issuance of debt based on commitments to undertake specific climate or sustainability action (‘Use of Proceeds). Limited enforcement of climate measures. May or may not include debt pause clauses. Can have high transaction costs. Still a debt.

Sustainability-linked bonds (SLBs) or loans (SLLs): Bonds or loans linked to specific climate action or sustainability measures. More flexible but more enforcement. Not meeting targets may result in higher interest rates and meeting targets may lower interest rates.

- Solutions are ad-hoc, piecemeal and not systemic, market-based and contractual solutions – can act as 'band-aids' but not address systemic deficiencies

- Contractual solutions – eg climate debt pause clauses – can provide fiscal breathing space but cannot provide comprehensive debt workout and there is complexity of terms and conditions

- Debt swaps are expensive and require high level of technical knowledge

- Does not address issue of lack of global safety net for indebted countries – existing crisis financing problematic, including conditionalities which may hinder crisis recovery

- Climate finance solutions may exacerbate existing debt crises, eg reliance on debt instruments (including green and sustainability bonds and loans) and carbon markets

- Public finance reoriented to creating 'enabling environments' for private finance without attendant reform of the international financial architecture

- Impacts on policy space – developing countries do not have control over the climate finance operations and decisions (determined by creditors and donors)

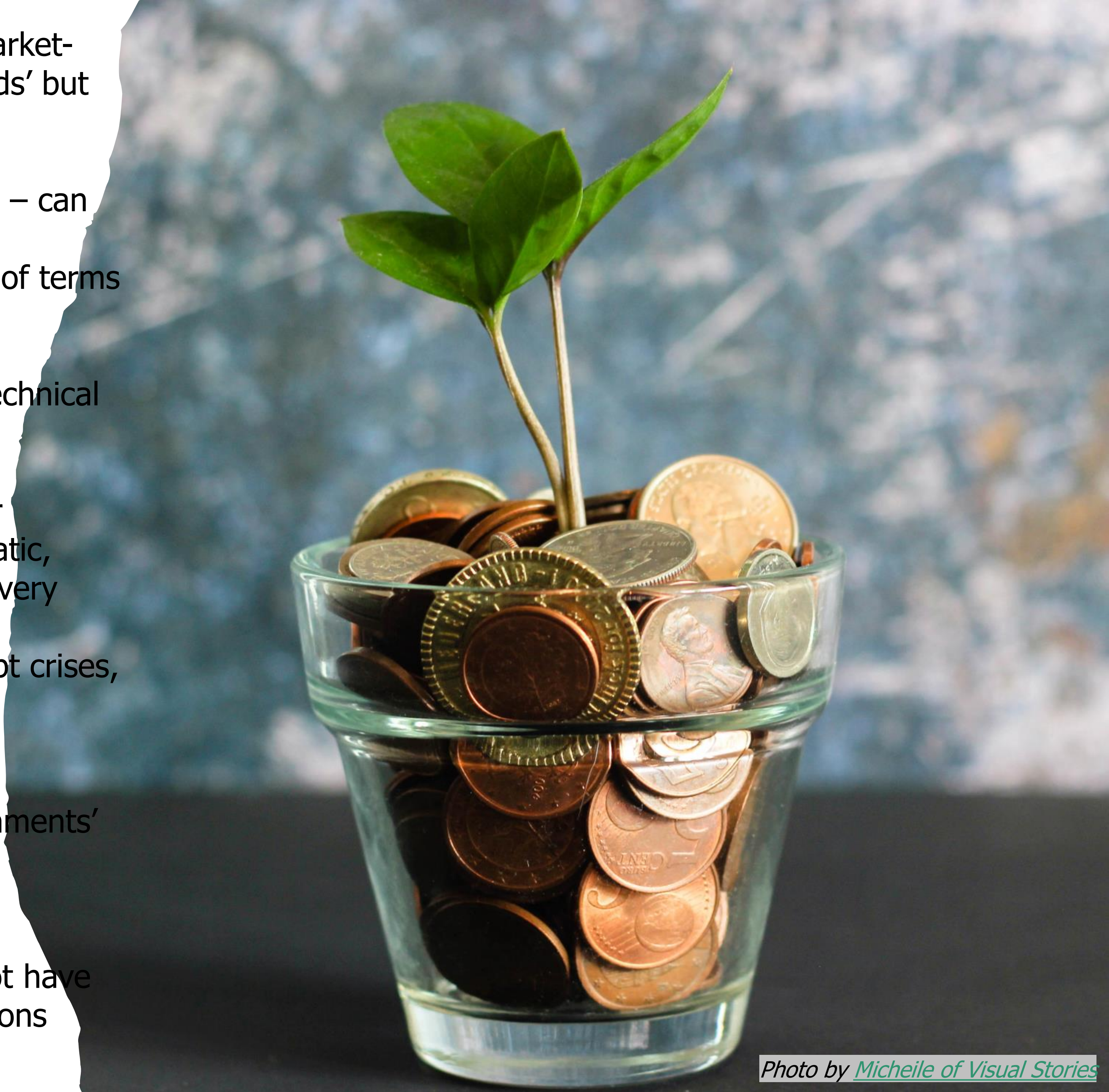


Photo by Micheile of Visual Stories