



The regulation of public debt: in the experiences of developed and developing countries

Ashurakhunov Abdufattokh

Tashkent State University of Economics

Faculty of Finance

Direction of Finance and financial technologies

Student of MMT-99i/21

abdulfattokhashuraxunov@gmail.com

Annotation: The research paper examines the regulation of public debt and its essence as well as analyze the experience of countries which are developed and developing. In today's world, many countries borrow a large amount of debt in order to boost their economy and improve the living standards of its residents from financial organization or developed countries. Besides after getting financed, they have many problems and sufferings how to allocate that money properly and purposely, subsequently they cannot pay back the debt and its interest. In the worst case, that countries may collapse by putting more debt strain to themselves and suffer from getting revenue from the debt, pay back it to organizations and countries. These challenges may sometimes make it difficult for countries to maintain constant and sustainable economic growth. In this statement, we determine the primary factors and causes of the debt risk in how to manage them effectively as well as provide with strategies and methods in terms of government debt in the case of developed and developing countries. It addresses the different kinds of risks that may eventually pose a threat to the explosion of public debt. The utmost goal is to explain the reason behind the government borrowing money with the lowest rate of interest and sustaining fiscal stability.

Keywords: public debt, financial organizations, interest rate, risk management, economic growth, international finance, regulation of public debt, fiscal policy.

Introduction

Public debt—also referred to as government or national debt—represents the total amount of financial obligations owed by a government to both domestic and foreign





creditors. It arises when public expenditures exceed revenues, compelling the government to borrow funds to bridge fiscal deficits, finance large-scale infrastructure projects, or respond to economic crises. In economic terms, public debt encompasses all liabilities of the central and subnational governments, commonly measured as General Government Debt (GGD). The accumulation of such debt reflects the cumulative effect of fiscal imbalances, where persistent budget deficits require borrowing to sustain governmental functions. These borrowings typically take the form of bonds, loans, or other debt instruments, each representing a contractual obligation to repay the principal along with accrued interest within a specified period.

The significance of public debt extends beyond mere fiscal arithmetic. It serves as a crucial macroeconomic instrument for managing national finances, stabilizing economic fluctuations, and promoting long-term development. When effectively managed, debt can support investment in infrastructure, education, and healthcare, stimulate employment, and foster inclusive growth. However, when mismanaged, excessive indebtedness can constrain fiscal flexibility, elevate borrowing costs, and jeopardize macroeconomic stability. As Reinhart and Rogoff (2010) note, unsustainable debt burdens can ultimately undermine investor confidence and impede economic growth. Hence, the regulation and prudent management of public debt have emerged as central priorities for policymakers worldwide.

Over time, the global landscape of public debt has evolved considerably. The 2008 global financial crisis and the COVID-19 pandemic both triggered unprecedented fiscal responses, leading to record levels of government borrowing across nations. The International Monetary Fund (IMF, 2021) reports that global public debt surpassed 97% of world GDP in 2020, reflecting the magnitude of fiscal interventions required to mitigate economic downturns. While advanced economies relied on robust domestic financial markets and investor trust to sustain high debt ratios, developing countries faced heightened vulnerability due to external financing dependence and volatile capital inflows.

These contrasts underscore the central theme of this paper: the comparative experiences of developed and developing countries in regulating public debt. Although the fundamental objectives of debt regulation—ensuring fiscal sustainability, maintaining creditworthiness, and supporting growth—are universal, the mechanisms





through which they are pursued differ markedly between the two groups. Developed economies generally operate under mature legal and institutional frameworks that promote transparency, accountability, and disciplined fiscal behavior. In contrast, developing economies often contend with weaker institutional capacity, limited access to domestic capital markets, and greater exposure to currency and interest rate shocks (Panizza, Sturzenegger, & Zettelmeyer, 2009).

This study therefore aims to analyze how different regulatory and institutional arrangements shape public debt outcomes in both contexts. It explores patterns of debt accumulation, evaluates the effectiveness of fiscal and monetary coordination, and examines how governance quality and external factors influence debt sustainability. Furthermore, it considers best practices from developed countries and their applicability to emerging economies seeking to strengthen debt management frameworks.

Ultimately, the regulation of public debt is not merely a matter of balancing fiscal accounts but a reflection of economic governance, institutional credibility, and long-term policy vision. When borrowing is guided by transparent, rules-based frameworks and directed toward productive investment, public debt can function as a catalyst for economic transformation rather than a source of vulnerability.

The history of public debt regulation reveals a gradual evolution from ad hoc borrowing practices to sophisticated fiscal governance systems. In the aftermath of World War II, many developed countries—such as the United States and the United Kingdom—implemented strong fiscal rules and debt management offices to stabilize postwar reconstruction debt. Japan's public debt, for example, rose steadily in the 1970s and 1980s, exceeding 200% of GDP by the 2010s, yet the country has remained financially stable due to its deep domestic bond market and high domestic savings rates (OECD, 2022).

In contrast, developing economies historically relied on external borrowing through bilateral and multilateral channels. The debt crises of the 1980s—particularly in Latin America—exposed the dangers of excessive foreign borrowing without adequate institutional oversight (Eichengreen & Hausmann, 2005). Many of these countries suffered from “original sin,” a condition in which governments cannot borrow abroad in their own currency, making them vulnerable to exchange rate fluctuations





and sudden stops in capital inflows. The resulting IMF-led structural adjustment programs of the 1990s emphasized fiscal discipline, transparency, and market-based debt management frameworks.

Since the 2008 global financial crisis, both groups of countries have witnessed rising debt levels, though for different reasons. Developed nations borrowed heavily to stimulate demand and prevent deflation, while developing economies borrowed to finance infrastructure, social spending, and external deficits (IMF, 2021). The COVID-19 pandemic further accelerated this divergence: global debt surged to over 350% of world GDP by 2022, with public debt accounting for nearly half of that figure (World Bank, 2020).

Classification of Public Debt

The classification of public or government debt is a fundamental aspect of fiscal management and economic policy analysis. It enables policymakers and researchers to evaluate the purpose, source, maturity, and repayment characteristics of borrowing. Generally, public debt can be classified into six major categories, each reflecting distinct economic functions and policy implications:

1. Productive and Unproductive Debt
2. Voluntary and Compulsory (Forced) Debt
3. Internal and External Debt
4. Short-term, Medium-term, and Long-term Debt
5. Redeemable and Irredeemable (Non-redeemable) Debt
6. Funded and Unfunded Debt

Productive debt refers to borrowing undertaken by the government to finance projects that yield long-term economic and social benefits. Such projects include investments in infrastructure, education, healthcare, and technological development that enhance a country's productive capacity and future revenue potential. In contrast, unproductive debt is incurred to cover recurrent expenditures, such as administrative costs, military spending, or subsidies, which do not generate direct financial returns or contribute to sustainable economic growth. While both forms of debt may serve short-term policy goals, only productive debt contributes to expanding the economy's long-run output capacity and fiscal resilience.

Voluntary debt is raised through open financial markets, where individuals,





institutions, or foreign investors willingly purchase government securities—such as treasury bonds or bills—in exchange for periodic interest payments. This form of borrowing reflects investor confidence in the government's fiscal credibility and is typically used under normal economic conditions. Conversely, compulsory (or forced) debt arises when governments mandate specific institutions, citizens, or corporations to lend funds, often during national emergencies, wars, or severe economic crises. Such borrowing may be enforced through legislative orders or patriotic appeals when voluntary capital inflows prove insufficient to meet urgent fiscal needs.

Internal debt refers to borrowings from domestic sources—such as commercial banks, insurance companies, pension funds, and private investors—within the country's own financial system. These obligations are usually denominated in the national currency, which mitigates exchange rate risks and allows the government to service debt through domestic revenue mobilization. In contrast, external debt represents borrowings from foreign governments, international organizations (e.g., the International Monetary Fund, World Bank, or Asian Development Bank), and international financial markets. External debt is generally denominated in foreign currency, making it more vulnerable to exchange rate fluctuations and global interest rate movements. While external borrowing can supplement domestic resources for development, excessive reliance on it may increase vulnerability to balance-of-payments crises and external shocks.

The classification of debt by maturity period reflects the time frame for repayment:

- Short-term debt (less than one year) is used to meet immediate fiscal needs, manage cash flow mismatches, or address temporary budget deficits. It typically takes the form of treasury bills or other instruments with high liquidity and low maturity risk.
- Medium-term debt (one to five years) finances projects or programs requiring moderate repayment horizons, balancing liquidity with stability.
- Long-term debt (more than five years, extending up to 30 years or more) supports large-scale and strategic investments, such as transportation infrastructure, energy projects, or urban development. Although long-term borrowing stabilizes fiscal planning, it also increases exposure to long-term interest rate fluctuations and refinancing challenges.

Redeemable debt refers to debt that the issuing government can repay or redeem





before its maturity date. This flexibility allows the government to refinance obligations when interest rates decline or when fiscal surpluses arise. Early redemption may also serve as a strategy to reduce overall debt servicing costs and maintain creditworthiness.

By contrast, irredeemable (or non-redeemable) debt cannot be repaid before the agreed maturity date. The issuer is obligated to continue interest payments until the debt matures, at which point the principal is settled in full. While this form of debt provides long-term financial stability for investors, it limits the government's flexibility in restructuring its debt portfolio.

Funded debt denotes long-term borrowings backed by established revenue sources or sinking funds that ensure repayment of both principal and interest. Such debt instruments—often government bonds—are used to finance enduring public investments and reflect sound fiscal planning and credibility.

Unfunded debt, on the other hand, consists of short-term obligations that lack dedicated funding mechanisms for repayment. It typically includes treasury bills or short-term notes issued to address temporary liquidity shortages or budgetary imbalances. While essential for short-term fiscal management, overreliance on unfunded debt can lead to rollover risks and higher interest burdens if not managed prudently.

The Role of Debt Classification in Public Debt Management.

Understanding the classification of public debt is essential for developing effective public debt management (PDM) strategies. As Bessaria and Bejarano (2021) emphasize, PDM is not merely a technical exercise but a strategic component of macroeconomic governance. The structure and composition of debt influence a nation's financial stability, credit ratings, and ability to respond to economic shocks. Effective management aims to minimize borrowing costs, maintain market confidence, and ensure that debt remains sustainable without compromising growth objectives.

In the modern era, public debt management is closely linked with broader economic policy goals—such as inflation control, employment generation, and equitable growth. Governments are thus encouraged to pursue transparent, accountable, and forward-looking debt strategies that balance fiscal discipline with developmental needs.





Risks Associated with Government Debt

While public debt serves as an essential instrument for financing economic development, stabilizing financial markets, and addressing fiscal imbalances, it also carries a variety of risks that can undermine macroeconomic stability and fiscal sustainability. When debt levels become excessive or are poorly managed, they may threaten a nation's economic progress, weaken its financial and currency systems, and erode investor confidence. The principal risks associated with government debt include debt unsustainability, refinancing and interest rate risks, currency risk, and default or creditworthiness risk.

One of the foremost dangers of public borrowing is the risk of debt becoming unsustainable. When governments engage in persistent and excessive borrowing—especially to finance recurrent expenditures rather than productive investments—public debt can exceed the economy's capacity to generate sufficient revenues for repayment. This situation often leads to a debt spiral, where new loans are contracted primarily to service existing debt obligations. Over time, this cycle increases the overall debt burden, constrains fiscal flexibility, and diverts public resources away from essential sectors such as healthcare, education, and infrastructure. Furthermore, concerns about a government's ability to meet its obligations can erode investor confidence, discourage private investment, and make it increasingly costly or difficult to obtain new financing from international lenders. In extreme cases, excessive public debt can trigger sovereign debt crises, characterized by declining growth, fiscal austerity, and heightened social tensions.

Refinancing risk arises when a significant portion of a government's debt reaches maturity within a short period. Governments often issue debt with varying maturities to manage liquidity and interest obligations; however, when large volumes of debt mature simultaneously, there is a heightened risk of rollover failure—that is, the inability to issue new debt to replace maturing obligations. Adverse market conditions, reduced investor demand, or increased interest rates can exacerbate this problem, forcing governments to refinance at higher borrowing costs. An increase in interest rates can substantially raise debt-servicing costs, crowding out essential public spending and potentially destabilizing the broader economy. In severe cases, governments may be compelled to implement abrupt fiscal adjustments, including spending cuts or tax





increases, which can hinder economic growth and worsen social inequality.

Another critical threat associated with public debt is currency risk, particularly in countries that borrow heavily in foreign currencies such as the US dollar or the euro. Exchange rate volatility can significantly alter the real value of foreign-denominated debt. A sharp depreciation of the domestic currency increases the cost of servicing external obligations when measured in local currency terms, leading to greater fiscal pressure and increased debt-to-GDP ratios. This challenge is particularly pronounced in developing and emerging economies, which often face limited access to deep domestic capital markets and rely extensively on external borrowing. In such economies, exchange rate fluctuations can quickly translate into fiscal distress, inflationary pressures, and deteriorating investor sentiment.

High levels of public debt can also adversely affect a country's creditworthiness. When debt indicators exceed sustainable thresholds, credit rating agencies may downgrade the sovereign's credit rating, leading to higher borrowing costs and restricted access to global capital markets. In the worst-case scenario, governments may default on their obligations—either by failing to make timely payments or by restructuring debt under unfavorable conditions. Sovereign default has severe consequences, including capital flight, inflationary pressures due to monetization of debt, social unrest, and prolonged economic stagnation. A downgrade in creditworthiness can also spill over into the private sector, increasing borrowing costs for businesses and households and further weakening overall economic performance.

The cumulative effect of these risks can significantly undermine a country's economic resilience and long-term growth potential. High and poorly managed public debt levels can constrain fiscal policy, limit investment in productive sectors, and reduce the government's ability to respond to future crises. Furthermore, unsustainable debt dynamics can destabilize the financial system, weaken monetary policy effectiveness, and contribute to persistent macroeconomic imbalances.

Therefore, identifying and mitigating the risks associated with government debt is a fundamental component of sustainable public debt management. By analyzing the sources and impacts of these vulnerabilities, policymakers can design strategies that promote fiscal discipline, strengthen institutional frameworks, and enhance transparency in debt operations. In doing so, governments can maintain market





confidence, preserve economic stability, and ensure that public borrowing continues to serve as a tool for inclusive and sustainable development rather than a source of financial fragility.

Methodology

This research aims to examine public debt management strategies by comparing the experiences of developed and developing countries in debt regulation and fiscal governance. The study employs a qualitative research approach, incorporating a combination of data collection techniques such as case studies, document analysis, and expert interviews. This approach enables an in-depth understanding of how different nations manage public debt, the specific challenges they encounter, and the strategies they adopt to achieve fiscal sustainability.

A central objective of this study is to develop practical policy recommendations that can enhance the effectiveness of public debt management in both developed and developing economies. By identifying and comparing best practices across diverse national contexts, the research seeks to highlight how governments can maintain an optimal balance between public investment needs and fiscal discipline.

In addition to this, the study integrates both qualitative insights and quantitative indicators—such as debt-to-GDP ratios, interest payment burdens, and fiscal deficit trends—to provide a comprehensive analysis of debt management outcomes. This mixed perspective facilitates a deeper understanding of the risks, challenges, and policy responses associated with government borrowing.

Ultimately, the findings aim to offer evidence-based recommendations that support the design of sound debt management frameworks, ensuring that public borrowing contributes to long-term economic growth, macroeconomic stability, and social welfare, rather than undermining them.

Literature review

The management of government debt has long been a major focus of economic and policy research, reflecting its crucial role in maintaining fiscal sustainability and macroeconomic stability. Building on the themes introduced in the previous section, this literature review examines existing academic contributions that analyze how countries regulate and manage public debt. It particularly focuses on the comparative experiences of developed and developing economies, highlighting the frameworks,





institutional mechanisms, and policy challenges that shape their respective debt management practices.

Public debt regulation is not merely a fiscal instrument but a cornerstone of broader economic governance. According to Abbas et al. (2013), who examined 26 episodes of major debt reversals in advanced economies between 1980 and 2012, output growth and fiscal discipline are key determinants of successful debt reduction. Their findings demonstrate that effective debt management enhances investor confidence and supports long-term economic stability. Similarly, Cecchetti, Mohanty, and Zampolli (2011) stress that sustained economic growth requires maintaining debt within prudent limits, as excessive borrowing can undermine financial stability even in advanced economies.

In developing countries, however, the regulatory context differs markedly. Limited access to domestic capital markets and heavy reliance on external borrowing make these economies more susceptible to global shocks. Presbitero (2012) argues that dependence on foreign loans exposes developing nations to exchange rate volatility, rising interest rates, and capital flight — factors that often lead to debt distress. The International Monetary Fund (IMF) and the World Bank play central roles in shaping debt frameworks in such contexts, often through programs that encourage fiscal discipline and sustainable borrowing practices. The IMF's Debt Sustainability Framework (DSF), as highlighted by Ghosh et al. (2013), provides structured criteria for assessing a country's capacity to manage debt relative to its macroeconomic performance. Nonetheless, critics such as Fosu (2007) contend that these frameworks can be overly restrictive, limiting the fiscal space necessary for development-oriented spending in low-income countries.

In contrast, developed economies typically maintain stronger institutional mechanisms, mature financial systems, and higher investor confidence, which allow them greater flexibility in managing debt. However, the global financial crisis of 2008 revealed that even these economies are not immune to fiscal instability. Reinhart and Rogoff (2010) argue that high public debt levels can constrain growth and trigger recessions if not accompanied by effective regulatory oversight and adaptable fiscal policy. Consequently, scholars advocate for countercyclical fiscal policies— those that expand spending during downturns and contract it during expansions—to maintain both





growth and debt sustainability (Arellano & Kocherlakota, 2008).

Institutional quality and governance have also emerged as decisive factors in determining debt outcomes. As noted by Panizza, Sturzenegger, and Zettelmeyer (2009), weak fiscal institutions, lack of transparency, and corruption often exacerbate debt crises in developing nations. Cases such as Argentina and Zimbabwe demonstrate how poor governance and inconsistent fiscal discipline can lead to unsustainable debt cycles and economic instability. Strengthening institutions, improving accountability, and enhancing fiscal transparency are therefore critical components of effective debt regulation (OECD, 2022).

In summary, the literature consistently indicates that while both developed and developing countries face challenges in managing public debt, the nature and magnitude of these challenges differ substantially. Developed nations tend to struggle with balancing fiscal expansion and sustainability, whereas developing economies grapple with structural vulnerabilities, governance issues, and external financing constraints. The comparative analysis of these dynamics provides a foundation for this study's subsequent sections, which seek to identify best practices and develop policy recommendations for improving debt regulation frameworks worldwide.

Results and discussion

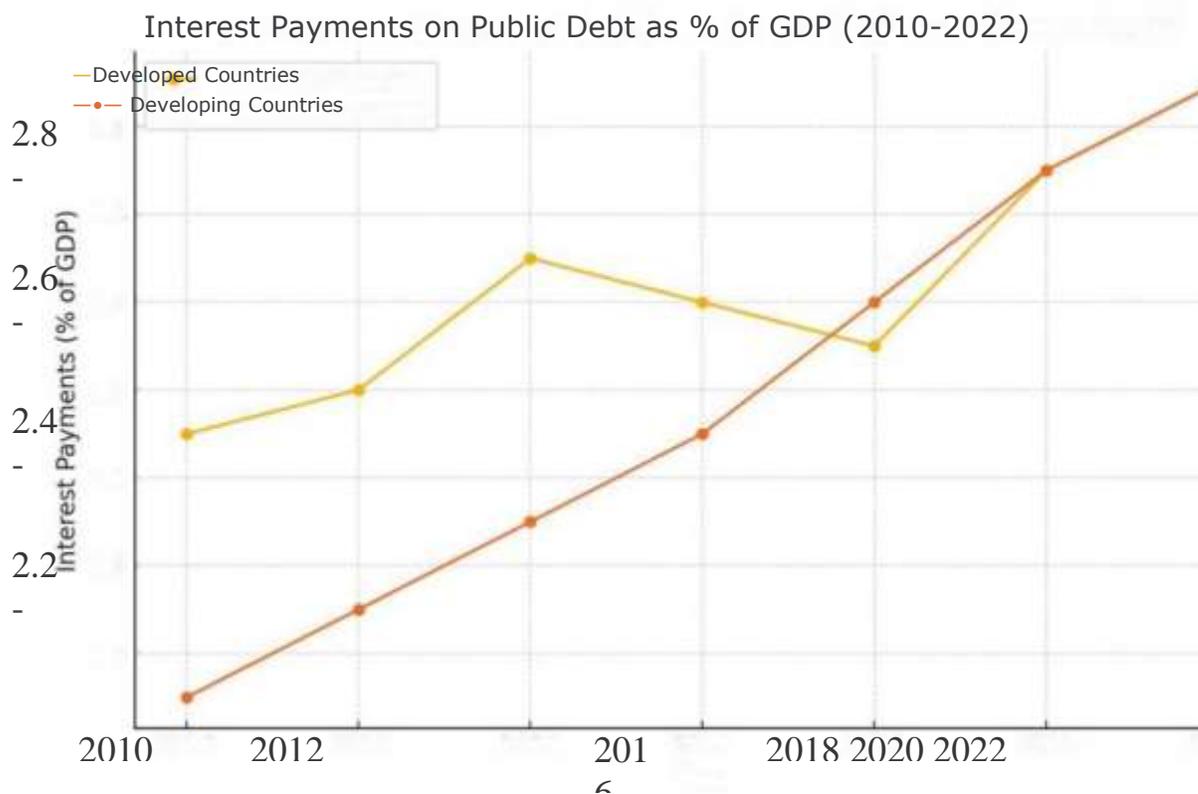
This section presents and interprets the main findings of the study, which compares public debt management practices between developed and developing countries. The analysis focuses on key debt indicators, including public debt-to-GDP ratios, debt servicing costs, fiscal deficits, and borrowing strategies, in order to assess their economic implications and sustainability. A major challenge identified across both groups of countries is the excessive reliance on foreign borrowing without adequate oversight of debt management, allocation, and the utilization of borrowed funds. This lack of control often leads to a cycle of dependency, where nations become trapped in high-interest repayment obligations, limiting their fiscal flexibility and economic growth potential. To address these challenges, this section also proposes strategic recommendations aimed at strengthening debt management frameworks and promoting fiscal sustainability in both developed and developing contexts. Graphs and tables are incorporated throughout to illustrate comparative data, highlight key trends, and support analytical insights. The discussion begins with an examination of debt patterns





in large and advanced economies, followed by a comparative analysis of developing nations, to identify shared weaknesses and effective policy practices.

Graph 1. The interest payments on public debt as % of GDP during the years of 2010 and 2022

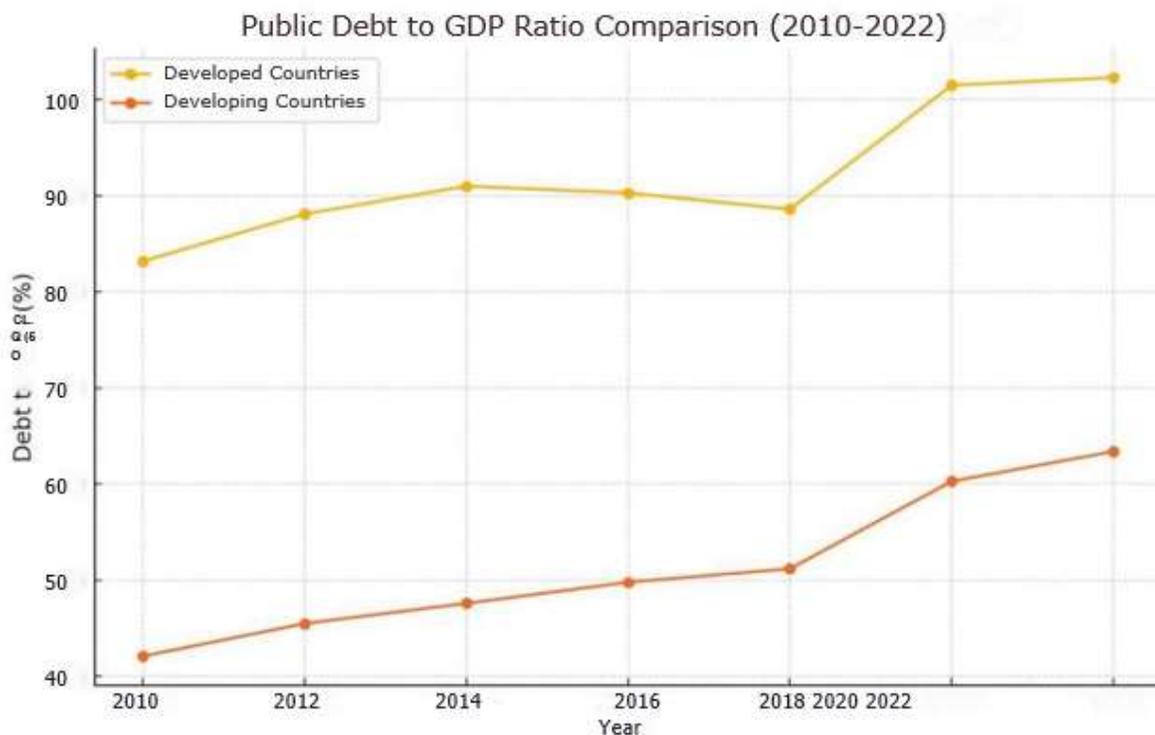


The line chart shows the trend in interest payments as a percentage of GDP for both developed and developing countries over the given period. At the beginning of the timeframe, developing nations recorded comparatively low interest payments, averaging around 1.3% to 1.4%, but this figure rose sharply throughout the years, reaching approximately 2.9% by 2022. These countries primarily include those in Africa, Asia, and Latin America. In contrast, developed economies started the period with a relatively higher proportion of interest payments in 2010, which continued to rise steadily before converging with the figures for developing countries towards the end of the period. By 2022, both groups had reached a similar level of around 2.9%, indicating a narrowing gap in debt servicing costs between advanced and emerging



economies.

Graph 2. Public debt to GDP ratio comparison in the years of 2010 and 2022



The line chart shows that developed countries consistently maintained a high proportion of public debt throughout the period in question. Initially, the debt ratio stood at around 82% of GDP, remaining relatively stable in the earlier years. However, from 2018 to 2022, the figure experienced a marked acceleration, ultimately reaching a peak of approximately 101%. This indicates that developed economies increasingly relied on borrowing during the later years, reflecting growing fiscal pressures and potentially expansionary policy responses. Overall, the data suggest a clear upward trajectory, culminating in record-high levels of indebtedness by the end of the observed period.

Table 1: The data on public debt-to-GDP ratios from 2013 to 2023 reveals a clear divide between advanced and developing economies. Over the ten-year period,





developed nations such as Japan, the United States, and Germany consistently maintained higher debt levels, underpinned by access to mature financial markets and strong investor confidence. In contrast, developing countries, including Argentina, Nigeria, and Pakistan, exhibited more volatile debt trajectories, shaped by structural vulnerabilities and external economic shocks.

Japan recorded the highest debt ratios throughout the period, climbing from 211.8% in 2013 to 259.9% in 2023. This persistent increase reflects the country's long-standing reliance on public spending to support economic growth and an aging population. Similarly, the United States saw a notable rise in its debt burden, increasing from 90.3% to a peak of 128.1% in 2021 before slightly easing to 123.5% in 2023. Germany, while still within the high-debt group, followed a different path. Its debt ratio declined steadily from 79.2% in 2013 to 60.9% in 2019, followed by a mild rebound to 66.8% in 2023, reflecting its more conservative fiscal stance.

Developing economies displayed greater debt instability. Argentina's debt-to-GDP ratio more than doubled, rising from 40.9% in 2013 to 102.3% in 2023, with sharp increases particularly after 2017—highlighting the country's ongoing struggles with inflation, currency depreciation, and external borrowing. Pakistan also saw a steady increase from 54.6% to 79.7%, while Nigeria, despite having the lowest ratios overall, nearly doubled its debt level from 19.5% to 35.2% over the same period.

These contrasting trends underscore the financial resilience of developed economies, which can sustain high debt levels thanks to credible institutions and lower default risks. In contrast, emerging markets remain more exposed to global financial fluctuations, exchange rate instability, and limited access to affordable credit—factors that continue to differentiate their fiscal capacities from those of their developed counterparts.

Country	2013	2015	2017	2019	2021	2023
United States	90.3	93.6	98.7	105.1	128.1	123.5
Japan	211.8	226.1	234.2	238.5	257.3	259.9
Germany	79.2	70.8	65.4	60.9	69.5	66.8
Argentina	40.9	53.3	57.9	87.6	98.7	102.3
Nigeria	19.5	20.1	22.5	27.7	34.8	35.2





Pakistan 54.6 59.9 62.4 67.1 83.1

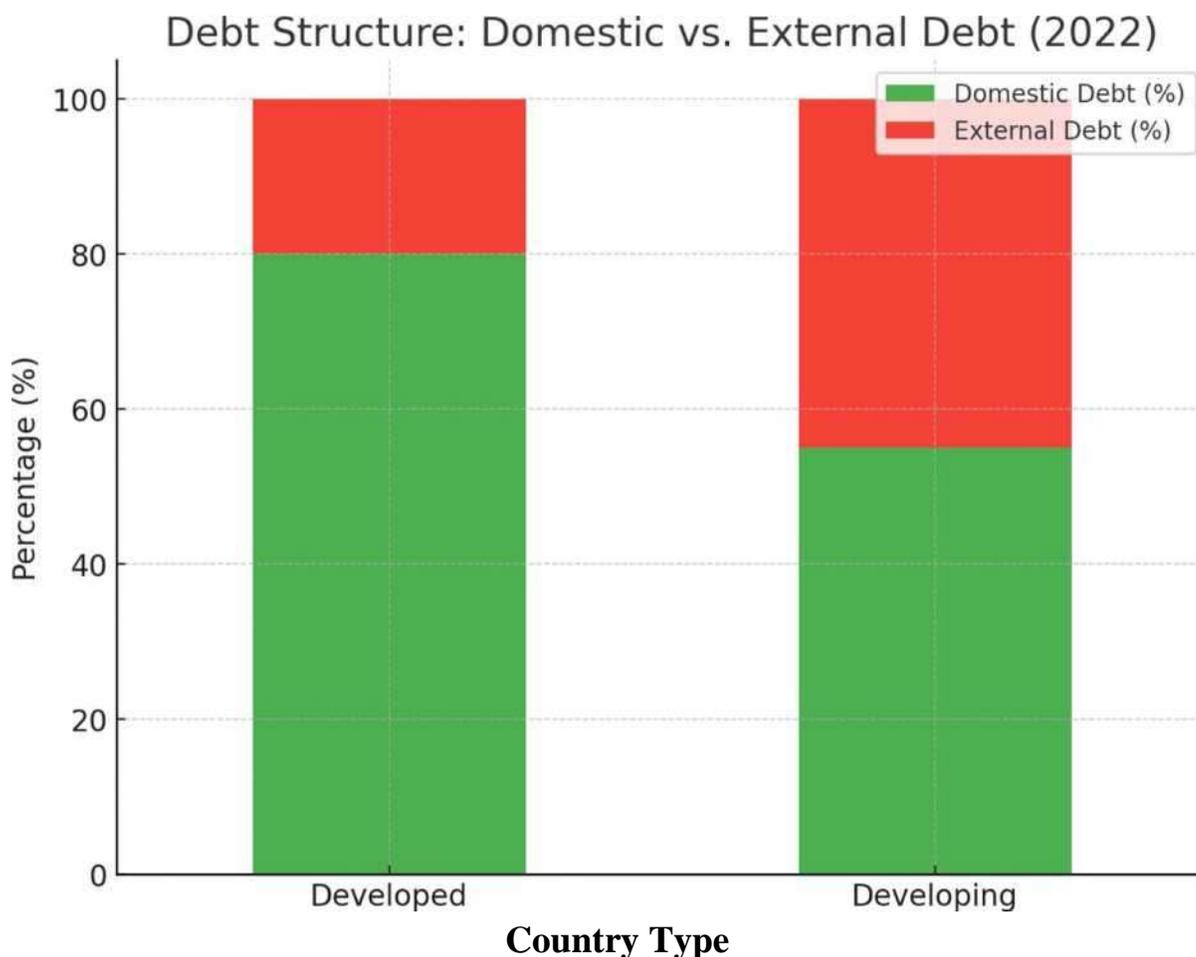
Impact of External Shocks and Global Economic Conditions

While developed countries are not immune to external shocks, they are generally better equipped to handle global economic downturns or financial crises. During the 2008 financial crisis, for instance, many developed countries, including the United States and Germany, implemented aggressive monetary policies, such as quantitative easing, to stabilize their economies and keep borrowing costs low. This helped prevent a sovereign debt crisis in most developed economies, although countries in the Eurozone faced more significant challenges.

Developing countries are much more susceptible to external shocks, such as fluctuations in global interest rates, changes in commodity prices, and sudden reversals of capital flows. Countries like Brazil, Nigeria, and Pakistan, which are heavily dependent on commodity exports, experienced significant fiscal strain when commodity prices fell in the mid-2010s, leading to a sharp increase in public debt levels. Moreover, developing countries are often more reliant on international financial institutions, such as the IMF and World Bank, for debt relief or restructuring when facing crises. However, the conditionalities attached to these programs can impose austerity measures that, in some cases, exacerbate social and economic challenges.

Graph 3. Debt structure: Domestic and Foreign as 2022 report shows:





An analysis of debt structure in 2022 further highlights the fundamental differences between developed and developing economies. In advanced countries, domestic debt constitutes approximately 80% of total public debt, while external debt accounts for just 20%. This skew towards domestic borrowing reflects the strength of local financial systems, deeper capital markets, and higher domestic savings rates. It also signals greater fiscal sovereignty, as these governments can issue debt in their own currency and maintain more control over monetary policy.

Conversely, developing nations show a more evenly split debt structure, with domestic and external debt each making up about 50% of the total. This balanced yet externally reliant profile suggests that many emerging economies continue to depend heavily on foreign capital to finance public expenditure. The reliance on external debt leaves them more exposed to global financial conditions, currency depreciation, and interest rate volatility—factors that can quickly escalate fiscal pressure during periods





of economic stress.

This contrast in debt composition reinforces the broader pattern seen in public debt trends: while developed economies may sustain higher debt levels with relative stability, developing nations face more constraints and risks stemming from their dependence on external sources of finance.

Borrowing Strategies and Market Access:

Developed Countries

Developed countries have greater access to capital markets and can borrow at lower interest rates due to their strong credit ratings and investor confidence. They typically use a mix of short-term and long-term bonds to manage debt. For instance, Japan and the United States rely heavily on long-term debt issuance, which helps to reduce rollover risks and ensures predictable debt servicing costs over time.

Moreover, these countries have access to a range of debt instruments, including inflation-linked bonds, which help to protect against inflationary risks, and floating-rate bonds, which adjust to market conditions. This flexibility in borrowing allows developed countries to maintain lower debt costs and better manage their risk exposure.

Developing Countries

In contrast, developing countries often have limited access to international capital markets, and when they do, they face higher borrowing costs. This is particularly the case for countries with lower credit ratings or those that have experienced past defaults. For instance, countries like Argentina and Nigeria have higher interest rate spreads on their sovereign bonds compared to developed economies, reflecting the higher perceived risk. Developing countries also tend to rely more on external debt, often issued in foreign currencies, which exposes them to exchange rate risks. A devaluation of the local currency can dramatically increase the debt burden, as the cost of repaying foreign currency debt rises. This vulnerability to currency risk is a common theme in developing countries, particularly those that rely on commodity exports, where exchange rates are often highly volatile.

Risk Management and Debt Sustainability

Developed Countries

In developed countries, risk management strategies are typically more advanced, involving the use of sophisticated tools to hedge against interest rate and currency risks.





For instance, the use of derivatives, such as swaps, is common in many developed countries to manage exposure to market fluctuations. The presence of well-functioning secondary markets also helps these countries manage liquidity risks effectively by allowing governments to refinance their debt at favorable terms.

Additionally, debt sustainability is less of a concern in developed economies, even at higher debt- to-GDP ratios, due to their ability to borrow in their own currencies and their strong economic fundamentals. For example, Japan has one of the highest debt-to-GDP ratios in the world, yet it faces relatively low debt servicing costs due to domestic demand for its government bonds and its ability to maintain low interest rates.

Developing Countries

While developing countries are more vulnerable to debt crises due to weaker risk management practices and higher exposure to external shocks. Countries like Argentina and Zambia have faced debt crises triggered by external factors such as commodity price declines, exchange rate volatility, and tightening global financial conditions. In many developing countries, a lack of diversified debt instruments and insufficient liquidity in domestic bond markets limit their ability to manage risks effectively.

Debt sustainability remains a significant issue in developing countries, as rising debt levels often coincide with slower economic growth, reducing the government's ability to service its debt. Many countries rely on external financing for development projects, such as infrastructure, which can create long-term repayment challenges if these projects do not generate the expected economic returns.

Key takeaways and insights from both countries

The experience of developed countries provides valuable lessons for improving debt management practices in developing economies. One of the most important lessons is the need for long-term planning and the use of diversified debt instruments. Developed countries, such as Germany and the United States, manage their debt by issuing a mix of short-term and long-term bonds, inflation- linked bonds, and other instruments. This helps spread out refinancing risks and manage inflationary pressures.

Developing countries, however, tend to focus on short-term debt due to limited market access and higher costs for long-term borrowing. This can lead to liquidity crises when debt comes due, as seen in several African and Latin American countries. A shift towards more sustainable borrowing strategies, such as increasing the share of long-





term debt and promoting domestic bond markets, could help mitigate these risks.

Furthermore, the importance of fiscal discipline cannot be overstated. Countries that successfully manage their debt often have strong fiscal policies that ensure debt levels remain sustainable. This involves not only prudent borrowing but also efficient public spending and tax collection. Many developing countries struggle with fiscal discipline, often due to political pressures or corruption. Strengthening governance and enhancing transparency in public financial management are crucial steps toward improving debt sustainability.

Conclusion

The analysis reveals clear and significant differences in public debt management between developed and developing countries, reflecting variations in institutional strength, financial capacity, and economic resilience. Developed economies generally benefit from advanced institutional frameworks, access to deep and diversified financial markets, and lower borrowing costs. These advantages allow them to implement sophisticated debt strategies, maintain investor confidence, and manage risks effectively. In contrast, developing countries continue to face considerable obstacles, including higher borrowing costs, limited access to capital markets, exchange rate volatility, and weaker institutional oversight.

Despite these challenges, the findings suggest that with targeted reforms, developing nations can strengthen their debt management systems, reduce vulnerabilities, and move toward greater fiscal sustainability. This research highlights that the effectiveness of public debt management depends largely on the strength of institutional frameworks, the degree of policy transparency, and the ability to diversify debt portfolios.

A key takeaway from the comparative analysis is the central role of independent debt management offices and transparent fiscal policies in maintaining long-term debt sustainability. Developed countries have demonstrated that issuing debt primarily in local currencies, maintaining clear accountability mechanisms, and adopting comprehensive risk management frameworks contribute to greater financial stability. Conversely, many developing economies suffer from institutional weaknesses that limit their ability to anticipate and mitigate debt-related risks, increasing their exposure to external shocks and debt crises.





Another important insight concerns market access and risk management practices. Developed economies generally possess the flexibility to issue long-term debt and hedge against currency risks, while developing countries tend to depend on short-term external borrowing, which heightens refinancing pressures and foreign exchange vulnerabilities. This dependence makes them especially susceptible to global economic fluctuations, including changes in interest rates, investor sentiment, and commodity prices.

To bridge this gap, developing countries can adopt several best practices observed in advanced economies. These include strengthening institutional capacity, broadening the range of debt instruments, deepening domestic capital markets, and establishing sound legal and regulatory frameworks. International organizations such as the IMF and World Bank can play a vital role by providing technical assistance, capacity building, and financial support to help countries design effective debt management strategies.

In conclusion, the effective management of public debt is essential for ensuring both macroeconomic stability and sustainable economic growth across all nations. While developed and developing countries face distinct challenges, the fundamental principles of fiscal discipline, transparency, and institutional integrity remain universally critical. By adhering to these principles and implementing adaptive, forward-looking debt strategies, developing nations can reduce their vulnerability to crises, strengthen their economic foundations, and promote long-term financial resilience and sustainable development.

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