OECD report points to mounting global debt crisis

Nick Beams
27 March 2025

A report issued by the Organisation for Economic Cooperation and Development (OECD) earlier this month has pointed to mounting debt problems in the world economy, which are being intensified by the rise in interest rates.

Among its findings is that across the membership of the organization, comprising 38 countries and all the major economies, the interest bill on government debt is swallowing up an ever-greater amount of government revenue with no sign this will decrease. Debt service costs rose to 3.3 percent of GDP in 2024, up from 2.4 percent in 2021, amounting to more than $2 trillion.

The value of outstanding government and corporate bonds in the OECD exceeded $100 trillion last year, with global GDP at between $105 and $110 trillion. Governments and corporations in the OECD borrowed $25 trillion in 2024, almost triple the level of borrowing in 2007 before the global financial crisis the following year.

Much of the increase in borrowing over the past decade and a half has been because of measures taken in response to the global financial crisis and the outlays as a result of the pandemic. This money was used, in the main, to provide handouts and in some cases bailouts for corporations while virtually free money was pumped into the financial system, boosting stock market and other forms of speculation.

Debt raised in this period, corporate and government, was at ultra-low rates, even negative in some cases.

But with the onset of inflation in 2021, the highest in four decades, and the subsequent lifting of interest rates starting in 2022, debt servicing problems have continued to grow.

And they will increase. This is because, as the OECD report explained, the current debt stock is “largely a legacy of the low-interest rate period” and “most outstanding debt carries a cost that is much lower than current market rates, and likely to be lower than the cost of borrowing going forward.”

At the end of 2024, more than half of OECD sovereign debt, 30 percent of emerging market debt, 63 percent of corporate debt, and 74 percent of non-investment grade debt had interest costs below the prevailing market level.

But that situation is changing rapidly as existing debt must be refinanced at much higher interest rates.

The report noted that 45 percent of OECD countries’ sovereign debt will mature by 2027 and must be rolled over, together with around one-third of corporate debt.

Even before the full impact of interest rate increases takes effect on the debt mountain, there has been a very sharp increase in interest payments. The OECD noted that while the effect of interest rate rises tended to be gradual “nonetheless, between 2021 and 2024, interest costs to GDP increased from the lowest to the highest level in the last 20 years, reflecting the speed of recent changes.”

The growing crisis is most graphically expressed in the US, where government debt is $36 trillion, and interest payments are around $1 trillion and set to become the biggest item in the budget.

Yesterday, the Congressional Budget Office (CBO) said the US debt-to-GDP ratio would rise from its present level of around 100 percent to 109 percent in 2027.

The CBO warned that “mounting debt would slow economic growth, push up interest payments to foreign holders of US debt, and pose significant risks to the fiscal and economic outlook.”

Growing debt problems are not confined to the US but extend across the major economies. An example was provided this week with the bringing down of the Australian Labor government’s budget. It recorded that government debt had reached the $1 trillion mark and the interest bill was increasing at 9.5 percent, the fastest rate of increase of spending of any item in the budget.

The OECD noted a significant fact about the growth of corporate debt, highlighting the growing divorce between the financial operations of corporations and the underlying real economy.

Corporate bond issuance had grown significantly above trend, but corporate investment, that is, spending on new factories and technology, on the development of the productive forces needed to promote real growth, had not.

"Rather than productive investment, much debt in recent years has been instead used to fund financial operations like refinancing… and shareholder payouts. This suggests existing debt is unlikely to 'pay itself off' through returns on productive investments," the OECD report said.

The economy, in all major countries, is increasingly coming to resemble an inverted pyramid in which a growing amount of non-productive debt sits on top of a relatively smaller productive base.

The OECD warned of growing financial turbulence from at least two sources. As central banks withdrew from the debt through "quantitative tightening"—the reduction of their financial asset holdings—the "existing investors will need to buy more debt or new, likely more price-sensitive, investors will need to enter the market, which could increase volatility."

Foreign investors would be needed in all markets, and this demand depended on the level and functioning of international financial flows.

"However, geopolitical tensions and trade uncertainties may lead to rapid changes in risk aversion that could, in turn, disrupt certain international portfolio flows," the report warned.

So far at least, the worsening situation had not led to a major increase in corporate defaults, and no major economy had defaulted or undergone a significant debt restructuring. But debt trajectories in recent years could not be ignored.

The report noted that "several sovereigns" were "shortening the maturity of their issuance" of debt. The US is a major example of this trend.

Increasingly, new debt is being issued at the short end of the market for two-year Treasury bonds rather than for ten-year bonds. This action by the Federal Reserve is being undertaken because of fears that there will be a shortage of investors at the longer end of the markets, and this deficiency of demand will lead to a lowering of bond prices and a rise in their yields or interest rate. (Bond prices and yields move in opposite directions.)

But this maneuver has its downside because an increased reliance on the short end of the market, where rates can move more sharply, "can amplify already heightened financial risks."

The body of the report, which runs to more than 170 pages, made virtually no mention of the spending policies of governments. But the executive summary contained a winged sentence that indicates the direction these policies must take.

"Many governments," it said, "will likely mean a combination of prudence, structural reforms to boost growth, and greater efficiency in public spending."

What these anodyne terms mean is a deepening assault on the social position of the working class—major cuts in spending on services necessary for modern life and intensified exploitation of workers via so-called "structural reforms."

The attacks are already underway as military spending is increased. In the US, Elon Musk, the head of Trump's so-called Department of Government Efficiency, has labeled the Social Security system a "Ponzi scheme," the clear implication being that it should be subjected to his "chainsaw."

In Europe, the so-called "peace dividend" is at an end with all governments increasing their military spending to record levels, with German imperialism leading the way with an allocation of €1 trillion on war to be financed by the release of the so-called debt handbrake.

The implications for the working class are emerging ever more clearly. The ruling classes are presiding over an economic system that is heading for a major crisis on every front, and for which their only "solution" is war and a deepening assault on the working class, both of which require authoritarian and fascist methods of rule.

In this situation, the fight for the program of international socialist revolution—the overthrow of the bankrupt and crisis-ridden capitalist profit system through a globally unified struggle of the working class—is not some distant perspective but the only practical program of the day.