Public Economy Project

SCIS Policy Brief | Number 75

South African G20 Presidency and emerging market economies:

Time to review the debt sustainability and domestic tax mobilisation framework

Pinaki Chakraborty | 2025

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG
SOUTHERN CENTRE FOR INEQUALITY STUDIES

Introduction

The G20 Finance Ministers and Central Bank Governors met on 17 and 18 July 2025 in Durban, South Africa. While acknowledging the heightened uncertainty and complex challenges of the global economy, the meeting emphasised that high levels of debt can impact economic growth, financial and price stability.[1] The Communiqué after the meeting mentioned that "in light of high public debt and fiscal pressures, we recognise the need to raise long-term growth potential by pursuing growth-oriented macroeconomic policies, while building fiscal buffers, ensuring fiscal sustainability, encouraging public and private investments and undertaking productivity-enhancing reforms".[2] Debt buildup is evident from the recently published International Monetary Fund's (IMF) Global Debt Database. The global public and private debt soared to 258% of gross domestic product (GDP) in the pandemic year 2020.[3] Although it declined to 235% of GDP in 2024, it remained significantly higher than the pre-Covid levels of 219% observed between 2010 and 2019. In United States (US) dollar terms, the total global debt (public + private) reached US$ 251 trillion in 2024.[4]

High debt and constrained fiscal space

Emerging markets and developing economies experienced a GDP rise in total debt of nearly five percentage points (IMF, 2025). Private borrowing rose from 120% to 123% of GDP, while public borrowing increased from 67% to 69% of GDP in 2024 (IMF, 2025).[5] The global public debt is expected to increase to 100% of the global GDP by the end of the decade, breaching the pandemic peak (IMF, 2024). Among the G-20 countries, the top five countries in terms of highly elevated debt-to-GDP ratios are Argentina, Japan, South Africa, United Kingdom and the United States of America (USA). The difference in the pre-and post-Covid debt ratios of G-20 countries is presented in Figure 1. The pre-Covid-19 average debt ratios in these countries for the period from 2016 to 2019 were 71.3% in Argentina, 193.6% in Japan, 50.8% in South Africa, 85.6% in United Kingdom and 90% in the USA.

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[1] https://g20.org/g20-media/3rd-finance-ministers-central-bank-governors-meeting/ (Retrieved 21 July 2025).

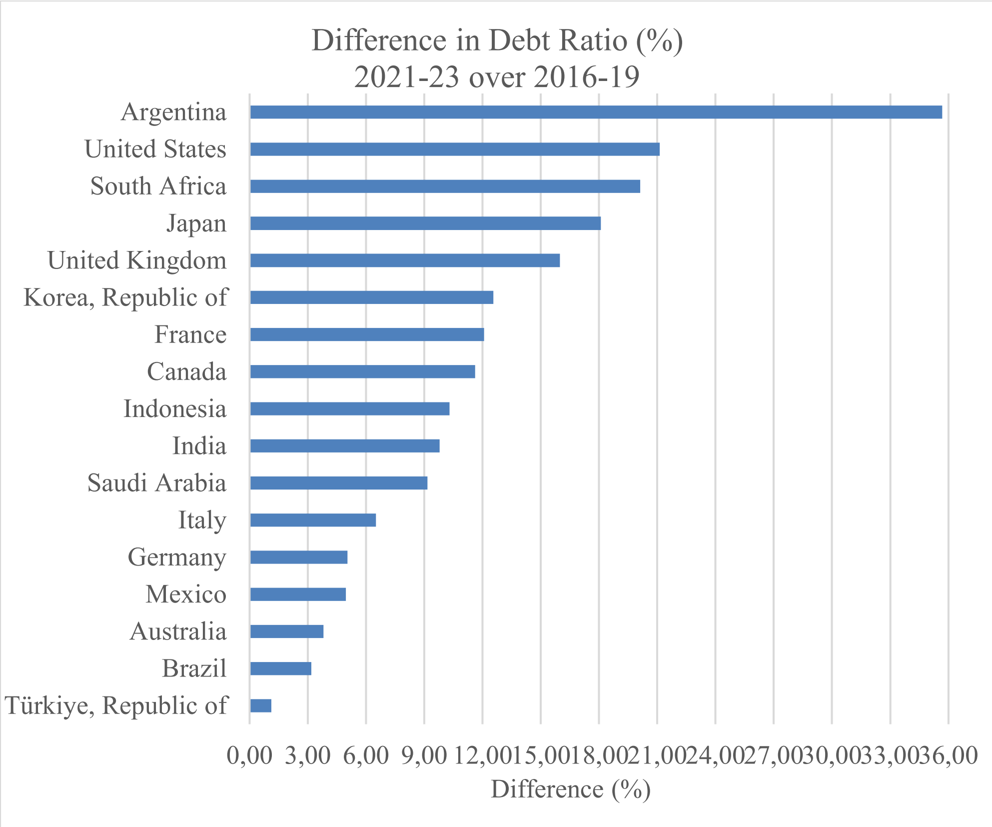
[2] https://g20.org/g20-media/3rd-finance-ministers-central-bank-governors-meeting/ (Retrieved 21 July 2025).

[3] IMF debt database covers public and private debt for 190 countries and calculates them as weighted averages. Global private debt is defined as the gross outstanding stock of all liabilities that are debt instruments, in line with the System of National Accounts 2008. For some countries, it is defined as sum of core debt instruments, that is, loans and debt securities.

[4] https://www.imf.org/external/datamapper/GDD/2025%20Global%20Debt%20Monitor.pdf (Retrieved 9 October 2025).

[5] https://www.imf.org/external/datamapper/GDD/2025%20Global%20Debt%20Monitor.pdf (Retrieved 9 October 2025).

Figure 1: Pre- and post-Covid difference in public debt-to-GDP ratios across G20 countries



To deal with the Covid pandemic, enhanced public spending in social and economic sectors and fiscal stimulus for economic recovery resulted in a sharp rise in public debt during 2020–2024. Because of the rise in both the public and private debt, the country-specific debt vulnerabilities have increased depending on their exposure to the international debt market, exchange rate volatility and subdued growth and export earnings. Such vulnerabilities are more pronounced in the low-income developing economies than in the emerging market economies (EMEs). However, if we consider EMEs, in the year 2020, the debt-to-export ratio was 17.58% in Argentina, which increased to 34.12% in 2023. For South Africa, the increase was from 6.73% to 9.39% during the same period.[6]

High debt-servicing costs are severely constraining fiscal space for development spending in many countries. At the same time, the expenditure pressure on government budgets is increasing, particularly for health, education, social protection and climate change. Postponement of expenditure on critical development needs is also not an option. Such a contractionary fiscal stance can have adverse consequences for both growth and development. Among many others, the three critical priorities that would demand more fiscal resources in the short run are the following:

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[6] WDI Data Base, World Bank, https://datacatalog1.worldbank.org/search/dataset/0037712 (Retrieved 9 September 2025).

1) Significantly enhanced financing requirements for SDGs, which are “badly off-track”;[7]

2) More redistributive public spending in the form of household transfers as household debt mounts;

3) Increasing fiscal space for public expenditure to deal with climate change.

Financing need and challenges to domestic resource mobilisation

However, in an interconnected global economy, the fear of capital flight has reduced the scope for an independent tax policy. Worldwide, the average statutory corporate tax rate has declined since 1980.[8] The challenges are more for those countries where the effective tax rate is higher than the global average. Also, large-scale tax avoidance through various tax instruments, such as transfer pricing, thin-capitalisation and various exemptions, has reduced the effective rate of corporate taxation, particularly on transnational corporations. Tax sovereignty, traditionally the exclusive right of states to determine and implement their own tax systems, stands at a crossroads due to unprecedented global interconnectivity.[9] As observed by the IMF (2022):

> Globalization and digitalization of the economy have created opportunities for development but have also intensified the mobility of the income tax base (profits and personal income) and factors of production (capital and, increasingly, people). Global firms draw on global supply chains to serve global markets, with increased possibilities for generating large profits without physical (taxable) presence. All of these developments have tax implications, which, without coordination, can adversely affect efficiency, distribution, and in some cases, international economic and trade relations.

The Global Tax Evasion Report 2024, published by the European Union (EU) Tax Observatory, noted that,

> [A] persistently large amount of profits is shifted to tax havens: $1 trillion in 2022. This is the equivalent of 35% of all the profits booked by multinational companies outside of their headquarter country. The corporate tax revenue losses caused by this shifting are significant, the equivalent of nearly 10% of corporate tax revenues collected globally. US multinationals are responsible for about 40% of global profit shifting, and Continental European countries appear to be the most affected by this evasion.[10]

[7] Report of the Independent Experts Group. 2023. Strengthening Multilateral Development Bank, The Tripple Agenda: Mandates, Finance, Mechanisms, G-20-India.

[8] https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2024/ (Retrieved 9 October 2025).

[9] https://tilburglawreview.com/articles/10.5334/tilr.394 (Retrieved 25 September 2025).

[10] https://www.taxobservatory.eu//www-site/uploads/2023/10/global_tax_evasion_report_24.pdf (Retrieved 25 September 2025).

However, some global cooperation is visible that deals with direct tax avoidance, led by the Organisation for Economic Co-operation and Development (OECD) and the IMF and evident from the OECD's work on cross-border and international taxation that seeks better coordination of tax rules within and across jurisdictions to tackle the issue of tax avoidance.[11] At the same time, there are serious concerns about the effectiveness of the indirect tax systems as well. Since indirect taxes are mostly either a value added tax (VAT) or a tax on purchases, their incidence primarily falls on domestic consumption. Often, indirect tax systems in EMEs are not non-distortionary. A narrow base renders the rate of indirect taxes higher, and they are often regressive when it comes to tax incidence. The operation of the domestic trade tax system needs a comprehensive evaluation for appropriate corrective policy actions. Although most countries have tried to have a harmonised VAT system to ensure a non-distortionary tax regime for domestic trade and consumption, in practice, VAT designs are imperfect in most countries, and are creating major inefficiencies in the effective functioning of the market for domestic trade on goods and services. A plethora of tax exemptions, for both direct and indirect taxes, is also resulting in significant revenue loss to the government. Globally, the revenue forgone for the year 2024, as available from the Global Tax Expenditure Database, is estimated at 4.43% of GDP.[12]

Another connected issue is the evolving interrelationship between technology and taxation. With the rapid advancement of technology, taxation issues during the last two and a half decades have focused more on compliance through technological innovations. The substantive issues in tax policy from the perspective of equity, efficiency and effectiveness require more thinking. The South African G-20 Presidency should bring back the discussion on tax policy as an agenda. It needs to be noted that tax compliance is a process and an administrative matter – it has a limited role in delivering development outcomes if the tax policy is suboptimal. The world economy has plenty of examples of imperfect VAT, selective nature of taxation and a regressive tax system where the poor have to bear a disproportionate share of the tax burden. To strengthen support for developing economies and efforts to unlock resources for development, the World Bank and IMF-led Joint Resource Mobilisation Initiative (JDRMI)[13] is expected to help improve revenue mobilisation. However, the JDRMI remains at the level of memorandums of understanding (MOUs) between the IMF and individual countries and appears to be a work in progress. Domestic resource mobilisation efforts across countries seem to have delivered little when it comes to tax-to-GDP ratio. In

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[11] https://www.oecd.org/en/topics/cross-border-and-international-tax.html (Retrieved 25 September 2025).

[12] https://gted.taxexpenditures.org/data-visualisation/ (Retrieved 9 September 2025).

[13] https://www.imf.org/-/media/Files/Research/imf-and-g20/2024/domestic-resource-mobilization.ashx (Retrieved 9 September 2025).

fact, the global tax-to-GDP ratio has declined from 14.2% in 2017 to 13.6% in 2024.[14] Reversing this trend is critical for a revenue-led fiscal consolidation.

Emerging issues

In the short- and medium-term, the G-20 as a block, and the EMEs within G-20 as a group, will have to strike an optimal balance between competing expenditure priorities, revenue needs and fiscal consolidation. The global view on debt and revenue needs to evolve in a manner that factors in the country-specific fiscal vulnerabilities and revenue envelope, instead of a one-size-fits-all fiscal sustainability framework pushed by multilateral institutions. Specific issues for the consideration of the South African G-20 Presidency are listed below under three broad heads: assessment of fiscal space and mapping of expenditure needs; international tax cooperation and domestic resource mobilisation; and a revised debt framework.

Fiscal space and mapping of expenditure

1) A comprehensive and quick assessment is needed of the global public resource requirements for three critical priorities, namely, resources for redistributive spending, for climate finance and to meet the 2030 SDG targets.
2) Although the global estimates of the additional expenditures for these priorities would provide the overall resource envelope, their distribution across countries will be asymmetric. The G-20 should create a framework to understand the implications of such asymmetries on the budget at the country level so that these spending priorities can be backed by resources. Such an estimate would also enable poorer countries to plan better to spend more on these priorities in the next five years.

Domestic resource mobilisation

1) Since public revenues are going to be the main source of financing these critical priorities, domestic resource mobilisation needs to be prioritised in a non-distortionary manner. The G-20 should create a task force to evaluate the nature of imperfections in the indirect tax regimes across countries with a mandate to suggest corrective measures to remove such imperfections.
2) Since tax revenue mobilisation in recent years has been focusing more on compliance and less on tax policy, it has often resulted in various suboptimal outcomes when it comes to revenue

[14] https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS (Retrieved 10 October 2025).

mobilisation. Tax revenue mobilisation need not be seen only through the lens of compliance. It should also focus on improvement in tax policy.

3) Also, with the direct taxes becoming more and more mobile with a large volume of tax avoidance, continuation of such avoidance would only make countries depend more and more on domestic trade taxes. Such a change would exacerbate the level of inequality. G-20 should strengthen the existing level of global cooperation to reduce tax avoidance by transnational corporations.

Revised debt framework

1) The South African G-20 Presidency should develop a comprehensive framework for the reduction of debt. The work already done on this issue by the Indian G-20 Presidency can be considered the baseline for such a framework.
2) A plan for fiscal consolidation without reducing developmental fiscal space should be considered to reduce debt vulnerabilities.

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