

A world debt crisis on its way

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I [have already](#) noted [the BBC story](#) based on an interview between Faisal Islam and World Bank boss David Malpass. There is another dimension to this. As the BBC noted, the emerging world food crisis is set against the backdrop of another emerging crisis:

The World Bank chief also warned of a knock on "crisis within a crisis" arising from the inability of developing countries to service their large pandemic debts, amid rising food and energy prices.

"This is a very real prospect. It's happening for some countries, we don't know how far it'll go. As many as 60% of the poorest countries right now are either in debt distress or at high risk of being in debt distress," he said.

"We have to be worried about a debt crisis, the best thing to do is to start early to act early on finding ways to reduce the debt burden for countries that are on have unsustainable debt, the longer you put it off, the worse it is," he added.

I am sure that this is true, and it is being made much worse by the bizarre response to inflation in the US and elsewhere, where interest rates are being raised when there is already a shortage of demand in the economy and squeezing those already facing household debt crises can do nothing whatsoever to solve the problems that we now face.

These rising interest costs do make the debt crisis of developing countries much worse. Most of their debt is denominated in dollars. Increasing interest rates simply makes their position even more difficult.

It is very likely that the debts incurred by many countries in the world in currencies other than their own to pay for the Covid crisis cannot be repaid now that there is a

food and fuel crisis as well. Crises are not meant to come in threes (unless that is the neoliberal global economic order is collapsing, when that outcome is predictable). This time they have. And the result is going to be unpayable debt, made worse by inflated demands created by rising interest rates.

Who will bear the cost of this failure? It depends on who owns the debt. Some will be government-owned. More may be bank owned, in which case a banking crisis could develop for this reason. And a significant part, as Faisal Islam notes for the BBC, is owed to China whose reaction is unpredictable as this has not happened to them before.

No one can be quite sure how this debt crisis will develop. That it will is the one certainty that we face on this issue. That the issues arising could result in chaotic financial shocks is likely.

Whatever happens in the domestic UK economy in coming months as the reality of unaffordable bills hits home an international banking crisis looks to be in the cards, and the only way out of it will be debt rescheduling, or waiver, which is a Jubilee by any other name. The world does not look like a happy place right now.