BRICS public debt: what is the exposure to rising interest rates?

04/10/2026

Confidential

Summary

Developed economies currently appear to be the hardest hit by the upward trend in government bond yields, driven by rising inflation and growing concerns about public debt levels. But the five BRICS countries (Brazil, Russia, India, China, and South Africa) are also affected by this trend, to varying degrees, depending on their debt levels, budget balances, debt maturities, and growth prospects.

Public debt has risen in all five countries since 2019, and all of them—with the exception of Russia—are projected to have debt exceeding 75% of GDP by 2026. The sources of vulnerability differ, however: large primary deficits in China; a heavy interest burden in Brazil; an unfavorable interest rate-growth differential in South Africa despite a return to primary surpluses; deteriorating fiscal balances in Russia; and a more favorable but growth-dependent situation in India.

The IMF's extended projections through 2040 confirm the persistence of these structural trends. Debt continues to rise in four of the five countries: China's debt is projected to reach 137% of GDP, Russia's is expected to more than double to 44%, while Brazil's and South Africa's would stabilize at around 106% and 84% of GDP, respectively. India is the only country where debt is projected to decline, reaching 68% of GDP in 2040, driven primarily by strong growth rather than primary surpluses.

A sustained 200-basis-point increase in the implied interest rate would lead to higher debt-to-GDP ratios in all five countries. Brazil and China would be the hardest hit, with debt-to-GDP ratios approximately 28 and 27 percentage points higher than in the baseline scenario by 2040, due, respectively, to a heavy interest burden and a large outstanding debt stock, while South Africa's debt would exceed 100% of GDP. If growth were to decline by an additional 0.5 percentage points, India's debt would stop declining and would stand slightly above its 2026 level, demonstrating that its favorable trajectory depends on sustained growth.

1. Global fiscal pressures are also affecting the BRICS countries

1.1. Rising financing costs come amid tight fiscal conditions

The resurgence of geopolitical tensions is increasing pressure on public budgets at a time when fiscal space is already limited. The conflict in the Middle East has disrupted energy supplies and reignited inflationary pressures, prompting governments to consider measures to protect households and businesses. These constraints come on top of persistent deficits and high public debt. The IMF estimates that global public debt reached **93.9% of GDP in 2025** and projects it will reach **100% by 2029.** At the same time, government

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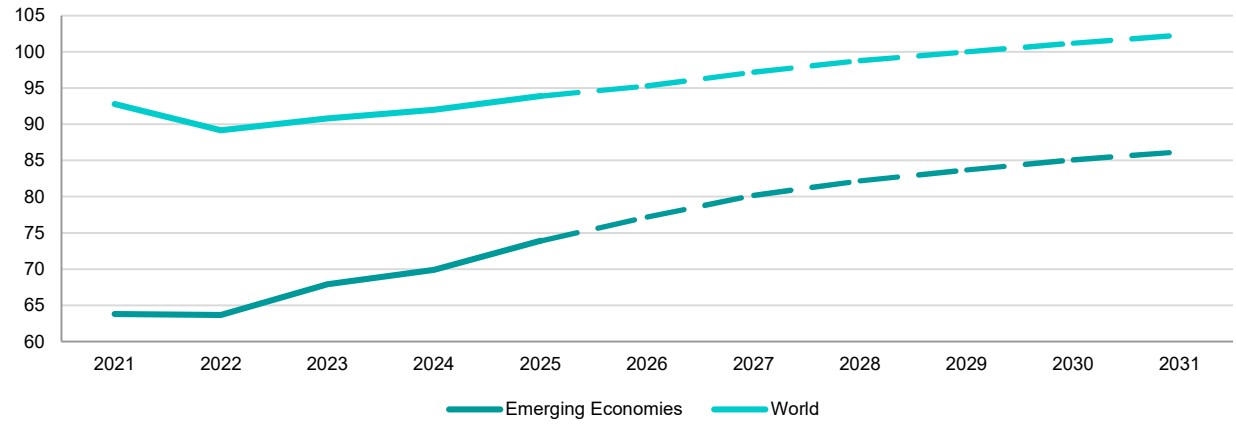
interest payments have risen from about **2% to nearly 3% of global GDP in four years**[1] . **Debt service therefore absorbs resources that could otherwise finance investments, public services, or measures to address new shocks.**

Slowing growth and rising inflation are making it more difficult to rebuild fiscal space. The IMF's July *2026* update *to the World Economic Outlook* projects global growth of 3.0% in 2026, while global inflation is expected **to rise from 4.1% in 2025 to 4.7% in 2026**[2] . For governments, this economic environment poses a dual challenge: the slowdown in economic activity is curbing revenue growth, while rising energy prices are increasing demand for subsidies, transfers, and other support measures. Although inflation may temporarily reduce debt ratios by increasing nominal GDP, this favorable effect is likely to be **offset by adjustments in spending and borrowing costs. The financing outlook exacerbates these difficulties**. Inflation fears have led to an upward revision of expectations for key interest rates and a rise in long-term sovereign bond yields. On **September 16, 2026, the U.S. Federal Reserve raised its benchmark interest rate by 25 basis points, bringing it to a target range of 3.75% to 4.00%**, citing persistently high inflation. This increases the risk that governments will face higher financing costs over the long term.

Major emerging economies, particularly the five BRICS countries examined in this study (Brazil, Russia, India, China, and South Africa), are all affected by this environment, though to varying degrees. Rising global interest rates increase borrowing costs in both international and domestic markets and lead foreign and domestic investors to demand higher returns on emerging market assets. **The extent to which these pressures affect public finances depends on each country's fiscal situation.** The impact of rising borrowing costs depends on initial debt levels, debt maturities, primary balances, and growth prospects. When the effective cost of debt rises relative to nominal GDP growth, **an improvement in the primary balance may be necessary to stabilize debt levels.** This note assesses these differences, first by comparing recent fiscal developments across the BRICS countries, and then by projecting debt through 2040 under various interest rate hike scenarios.

Figure 1: Public Debt (% of GDP)



Source: IMF

1.2. BRICS countries face different fiscal vulnerabilities

The BRICS countries face growing fiscal pressures, but the extent and sources of their vulnerabilities differ. Comparing 2019 figures with IMF projections for 2026, public debt is rising in all five countries. **China** is seeing **the sharpest rise**, from **59.8% to 106.9% of GDP**—an increase of 47.1 percentage points—followed by South Africa, where debt is rising from 56.1% to 78.9%. Debt is also rising in Brazil, from 87.1% to 96.5%;

[1] IMF Public Finance Monitor, "Fiscal Policy Under Pressure: High Debt, Growing Risks," April 2026
[2] IMF World Economic Outlook Update, "The Global Economy Between War and Technology," July 2026

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in India, from 76.7% to 83.4%; and in Russia, from 13.7% to 19.1%[3] . Consequently, all countries except Russia are projected to have debt **exceeding 75% of GDP in 2026** (see Figure 1.a). **This overall increase in debt, however, masks contrasting trends in primary balances, interest payments, and the spread between interest rates and growth.**

China's main challenge lies in its large primary deficit, despite relatively low interest payments. Its primary deficit is widening, rising from **5.2% of GDP in 2019 to 7.0% in 2026** according to **forecasts**—a deterioration of 1.8 percentage points that brings this **deficit to the highest level in the group** (see Figure 1.b). Interest payments are rising only moderately, from **0.8% to 1.1% of GDP**, and remain **significantly lower than those in Brazil, India, and South Africa** (see Figure 1.c). At the same time, the interest rate-growth differential becomes less favorable, falling from −6.1 to −2.9 percentage points, but remains negative (see Figure 1.d). **Growth therefore continues to support debt sustainability, but this benefit is insufficient to offset persistent primary deficits.**

Brazil's vulnerability stems mainly from its heavy interest burden and weak growth. Its primary balance remains close to balance but is deteriorating slightly, moving from a deficit of 0.1% of GDP in 2019 to a projected deficit of 0.5% in 2026 (see Figure 1.b). Over the same period, interest payments rise from 4.8% to 7.3% of GDP, representing the sharpest increase and the highest projected level among the five countries (see Figure 1.c). The rise in interest payments therefore largely accounts for the deterioration in the overall budget balance between these two years. The spread between interest rates and growth, already positive in 2019, increases from +0.4 to +1.0 percentage points (see Figure 1.d). **Since the interest rate exceeds the growth rate, a primary balance close to zero is not sufficient to stabilize a high debt-to-GDP ratio.**

The case of South Africa shows that an improvement in the primary balance is not enough to eliminate fiscal vulnerabilities. Its primary deficit of 1.5% of GDP in 2019 is projected to turn into a surplus of 0.6% in 2026, representing an improvement of 2.1 percentage points (see Figure 1.b). However, interest payments rise from 3.6% to 5.5% of GDP, which offsets most of the effect of this improvement on the overall balance (see Figure 1.c). The spread between interest rates and growth remains persistently unfavorable, at approximately +2.3 percentage points for both years (see Figure 1.d). **The challenge, therefore, is to maintain sufficient primary surpluses while reducing the imbalance between financing costs and growth.** The projected return to a primary surplus represents an improvement, but it follows a sharp accumulation of debt since 2019.

Russia maintains a low debt-to-GDP ratio (partly constrained by its inability to borrow on international markets due to Western sanctions related to the war in Ukraine), **but is experiencing the sharpest deterioration in both the primary balance and the spread between interest rates and growth.** Its primary surplus of 2.2% of GDP in 2019 is projected to turn into a deficit of 0.8% in 2026, representing a deterioration of 3.0 percentage points (see Figure 1.b). This shift is driven in particular by deteriorating economic conditions and war-related defense financing needs. Interest expenses are also rising, from 0.3% to 1.2% of GDP, although they remain relatively low compared with most other BRICS countries (see Figure 1.c). At the same time, the interest rate-growth spread is widening from −3.3 to +3.1 percentage points, the highest projected level in the group (see Figure 1.d). **Russia's low initial debt level mitigates the current burden of debt service, but the combination of primary deficits and interest rates exceeding the growth rate is putting upward pressure on debt levels.**

India stands out with an improving primary balance and a more favorable interest rate-growth spread, although its debt remains above its pre-pandemic level. Its primary deficit is narrowing, from 3.1% of GDP in 2019 to a projected 1.9% in 2026, while interest payments are rising from 4.8% to 5.5% of GDP (see Figures 1.b and 1.c). India is also the only country where the spread between interest rates and growth improves between these two dates, falling from +1.0 to −3.6 percentage points—the most favorable projected spread among the five countries (see Figure 1.d). **These conditions make it easier to keep debt under control,**

[3] These figures are taken from the IMF's April 2026 World Economic Outlook

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but they are not enough to offset the cumulative increase since 2019. To maintain this advantage, a balance must be struck between continued fiscal consolidation and growth-promoting spending, as an economic slowdown would weaken a key factor in debt sustainability.

These comparisons highlight **various sources of fiscal vulnerability**: large primary deficits in China; a particularly heavy interest burden in Brazil; a persistently unfavorable interest rate-growth differential despite an improvement in the primary balance in South Africa; a deterioration in fiscal balances and debt dynamics in Russia; and a more stable, yet growth-dependent, situation in India.

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Figure 1.a: General Government Debt (% of GDP)

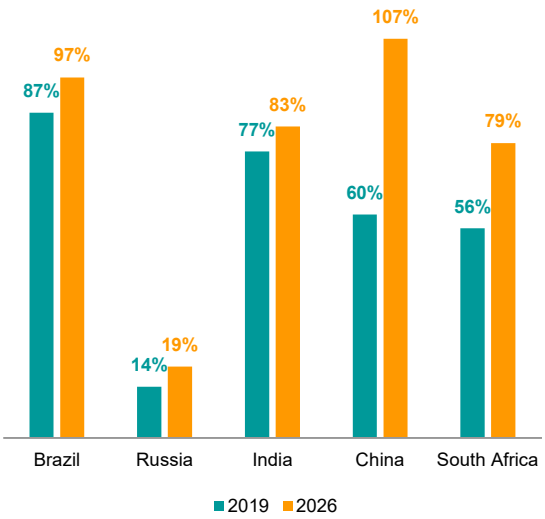


Figure 1.b: Primary balance (% of GDP)

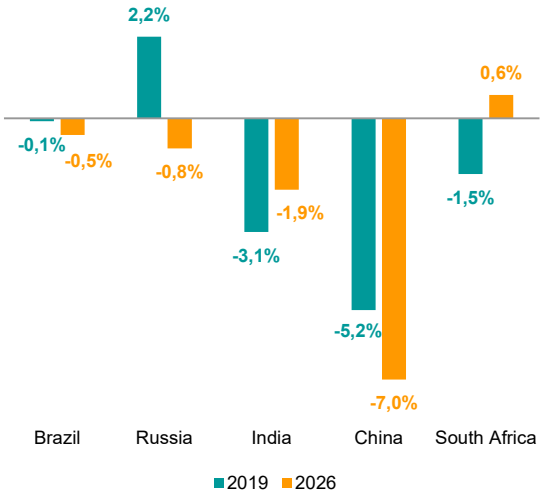


Figure 1.c: Interest Expenditures (% of GDP)

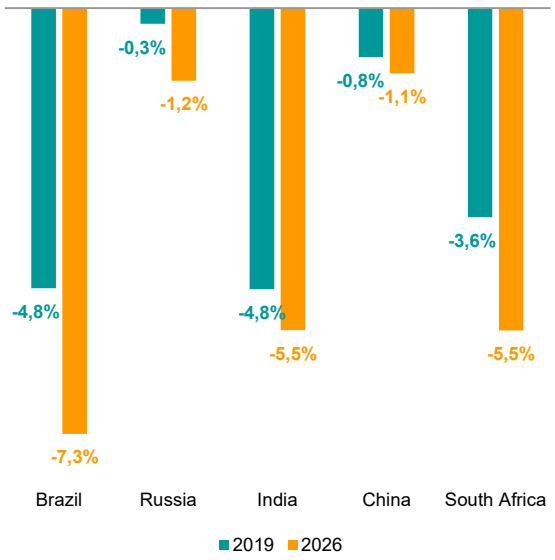
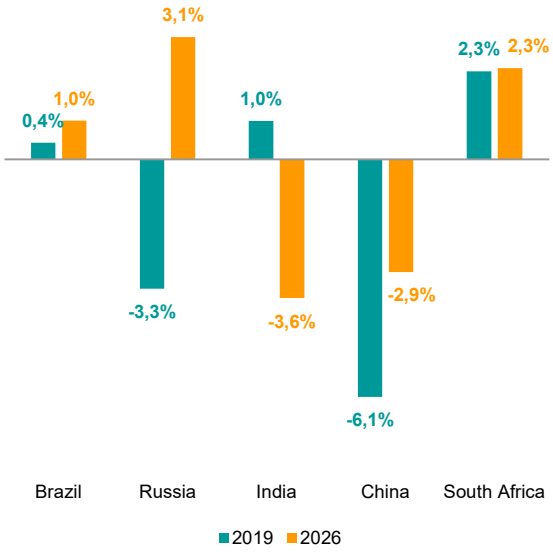


Figure 1.d: Interest-Growth Spread (r-g)



Source: GSA, IMF World Economic Outlook (WEO), April 2026

Note: Interest payments are calculated as the difference between the overall government balance and the primary balance. The interest rate-growth differential corresponds to the difference between the real implicit interest rate and real GDP growth. The real implicit interest rate is obtained by dividing interest payments in year t by total debt in year t-1.

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2. Rising financing costs would exacerbate debt-related vulnerabilities in BRICS countries

2.1. The baseline projections extend the fiscal trends observed since 2019

Before assessing the impact of rising financing costs, we examine the factors that determine debt trajectories in the baseline scenario. We use the standard debt dynamics equation, which links the change in the debt-to-GDP ratio to the real interest rate, real GDP growth, and the primary balance:

$$D_t = D_{t-1} \times (1 + r_t - g_t) + prim_t - \Delta assets_t$$

whereD_t denotes the public debt-to-GDP ratio in year *t*,r_t corresponds to the implied real interest rate on public debt[4] ,g_t represents the real GDP growth rate in year *t* relative to year *t-1*,$prim_t$ denotes the primary deficit as a percentage of GDP in year *t*, and$\Delta assets_t$ represents year-over-year changes in the stock of public assets.

According to the IMF's baseline scenario, debt ratios continue to rise in four of the five countries through 2040, with India being the sole exception. Figure 2.a presents the IMF's debt projections[5] for the BRICS countries. **China records the sharpest increase,** with **its debt rising from 106.9% of GDP in 2026 to 137.5% in 2040**—an increase of 30.6 percentage points. Next is Russia, whose **debt more than doubles, rising from 19.1% to 43.7% of GDP**—an increase of 24.6 percentage points—even though its ratio remains by far the lowest in the group. Brazil's debt will rise from 96.5% to 106.3% of GDP (9.7 percentage points) and stabilize starting in 2031, while South Africa's will rise from 78.9% to 83.8% (4.9 percentage points). **India is the only country where debt is declining, falling by 15.7 percentage points to 67.6% of GDP in 2040.**

The factors driving these trajectories vary from country to country and are largely consistent with the structural trends identified in the previous section. Figure 2.b breaks down the change in the debt-to-GDP ratio between 2026 and 2040 into the contributions of the primary balance, the real implicit interest rate (deflated by the GDP deflator), and real GDP growth. Any difference not explained by these three factors—which primarily reflects the stock-flow adjustments incorporated into the IMF's projections through 2031—is classified under "other factors."

In Brazil, interest payments are the main driver of debt accumulation. The real interest rate adds **44.4 percentage points** to the debt-to-GDP ratio between 2026 and 2040, representing the highest contribution from interest payments in the group. Real GDP growth reduces this ratio by 36.0 percentage points, and the shift to modest primary surpluses (0.6% of GDP starting in 2031) reduces it by an additional 6.3 percentage points, while other factors add 7.8 percentage points. **With a real implicit interest rate of about 3.0 percent—higher than the growth rate of 2.5 percent—primary surpluses are only sufficient to stabilize the debt at about 106 percent of GDP, not to reduce it.**

South Africa faces a similar challenge: interest payments offset the gains from primary surpluses. The real interest rate increases the debt-to-GDP ratio by **42.7 percentage points**, which largely offsets the combined effect of primary surpluses (19.1 points) and growth (20.1 points). **With the interest rate-growth differential remaining positive—at about 1.9 percentage points starting in 2031—primary surpluses of about 1.4% of GDP are sufficient only to stabilize the debt at about 84% of GDP.**

In Russia, this increase is due to persistent primary deficits combined with low growth. Primary deficits of about 1.0% of GDP add 15.1 percentage points to the debt-to-GDP ratio, and the real interest rate adds an additional 11.8 points. **Real growth, limited to 1.0% per year, reduces the ratio by only 4.4 percentage points—**the smallest contribution in the group. **Since the interest rate exceeds the growth rate and the primary balance remains in deficit, debt increases throughout the projection horizon.**

[4] Calculated by dividing interest payments in year t by the outstanding debt in year t-1, deflated by the GDP deflator.
[5] The IMF provides forecasts through 2031; projections from 2031 onward are calculated using the debt dynamics equation

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In China, large primary deficits outweigh all other factors. Primary deficits, which remain above 6% of GDP, add **91.1 percentage points** to the debt-to-GDP ratio over the period. **The spread between the interest rate and growth is nevertheless favorable**: growth reduces the ratio by 60.3 points, and the real interest rate also lowers it by 9.9 points. In fact, the GDP deflator is expected to rise faster than the very low nominal implicit rate (about 1.3%) starting in 2028, which would result in a negative real rate**. These favorable conditions are not enough to offset the primary deficits, and debt continues to rise sharply.**

In India, strong growth is the main factor driving the decline in debt. Real GDP growth of about 6.5% per year reduces the ratio by **69.3 percentage points**, which more than offsets the upward contributions from the real interest rate (31.4 points) and primary deficits (22.0 points), with the latter falling to about 1.5% of GDP by 2031. **India's debt reduction therefore relies primarily on a strongly negative interest rate-growth differential of approximately −3.6 percentage points, rather than on primary surpluses.**

These results confirm the **various sources of fiscal vulnerability** identified in the previous section: a heavy interest burden in Brazil and South Africa, large primary deficits in China, a combination of deficits and weak growth in Russia, and a growth-dependent situation in India.

Figure 2.a: General Government Debt (% of GDP)

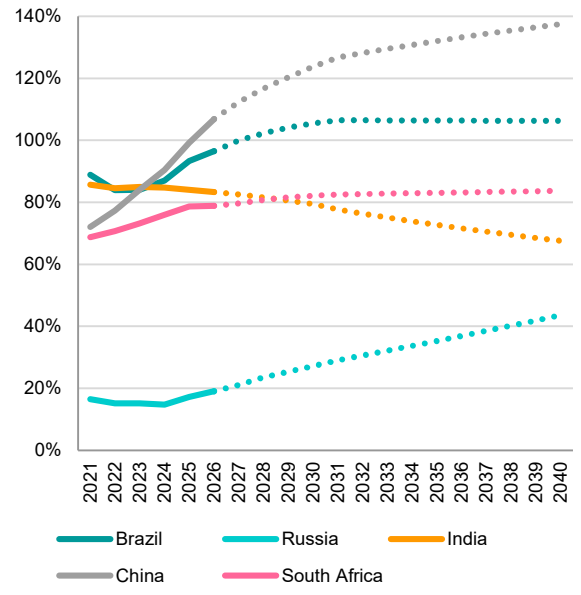
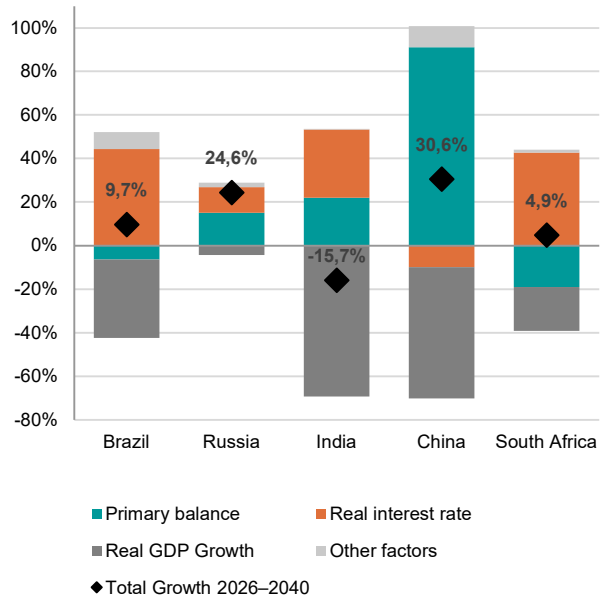


Figure 2.b: Contribution to the change in the debt-to-GDP ratio between 2026 and 2040 (percentage points of GDP)



Source: IMF, GSA calculations
Note: The IMF provides forecasts through 2031; projections beyond 2031 are calculated using the debt dynamics equation, assuming that the real implicit interest rate, growth, and the primary balance remain at their 2031 levels. Any deviation not explained by the debt dynamics equation is accounted for in the "other factors" category.

2.2. A sustained rise in interest rates would lead to an increase in debt across the entire group

Given the tightening of global financial conditions, we assess the sensitivity of debt trajectories to a sustained rise in financing costs. In the first scenario, the implied interest rate on public debt increases by **200** basis **points** relative to the baseline scenario. Since existing debt is refinanced only gradually at higher rates, the shock **is felt linearly starting in 2027 and is fully passed on after a period corresponding to**

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each country's average debt maturity, as reported in the World Bank's Fiscal Space database[6] s by country: 6 years for Brazil and China, 8 years for Russia, 11 years for South Africa, and 12 years for India. The second scenario adds a **0.5 percentage point decline in real GDP growth** starting in 2027, reflecting the risk that tighter financial conditions and rising energy prices will weigh on economic activity. In both scenarios, the primary balance and the GDP deflator remain unchanged from the baseline scenario; the results therefore show the impact of the shocks in the absence of a fiscal policy response (see Figure 3).

Brazil and China are the countries most vulnerable to a rise in interest rates. In Brazil, **debt reaches 134.1% of GDP in 2040 under the first scenario—27.8 percentage points higher than in the baseline scenario**—instead of stabilizing around 106.3%. This result confirms Brazil's vulnerability to the burden of interest payments, which is already evident in the recent evolution of its public finances and in the baseline scenario. The short average maturity of its debt leads to a full pass-through of the rate hike by 2032. In China, **debt rises to 164.3% of GDP, 26.8 percentage points higher than in the baseline scenario**. Although interest payments are not currently China's main fiscal challenge, **the size and growth of its outstanding debt amplify the impact of any rate hike**, with each additional percentage point applying to a debt-to-GDP ratio that is already above 100%.

South Africa's debt is projected to exceed 100% of GDP by 2040. The rate shock pushes its **debt-to-GDP** ratio to **101.5% in 2040—17.7 percentage points above the baseline scenario**—confirming the country's vulnerability to an unfavorable interest rate-growth differential. Because the longer average maturity of its debt delays the impact of rising rates, the shock is not fully transmitted until 2037, and **the gap relative to the baseline scenario continues to widen toward the end of the period**.

India and Russia are less affected, but for different reasons. India's debt-to-GDP ratio reaches 79.1% in 2040, 11.5 percentage points higher than in the baseline scenario. **Its sharply negative interest rate-growth spread and the long maturity of its debt cushion the shock, and debt remains below its 2026 level.** In Russia, the increase is 8.4 percentage points, bringing debt to 52.0% of GDP in 2040. This smaller impact is mainly due to **Russia's low initial debt-to-GDP ratio**: the same rate hike applies to a smaller outstanding debt balance. It does not reflect stronger fiscal fundamentals, since Russian debt is already rising steadily in the baseline scenario.

Slower growth amplifies the impact of rising interest rates and highlights India's dependence on growth. In the second scenario, debt-to-GDP ratios in 2040 are 37.5 percentage points higher than in the baseline scenario in Brazil (143.8% of GDP), 35.5 percentage points higher in China (173.1 %), 25.6 percentage points higher in South Africa (109.4%), 16.6 percentage points higher in India (84.2%), and 11.3 percentage points higher in Russia (55.0%). South Africa's debt will exceed 100% of GDP starting in 2037. **The case of India is particularly telling: its debt-to-GDP ratio ultimately ends up slightly above its 2026 level, rising from 83.4% to 84.2% of GDP, whereas it declines in both the baseline scenario and the first scenario.** After stabilizing around 81% in the early 2030s, it rises again toward the end of the period. This slowdown in growth reduces the favorable spread between interest rates and growth on which India's debt reduction relies, **underscoring its vulnerability to** lower-than-expected **growth**.

Overall, a rise in financing costs would affect all BRICS countries, but through mechanisms that depend on their fiscal situations: the level of outstanding debt, the spread between interest rates and growth, and the maturity of the debt, which determines how quickly rising rates take effect. **In the absence of further fiscal adjustments, a sustained increase of 200 basis points would cause the debt-to-GDP ratios of the five countries to follow an upward trajectory through 2040.**

[6] Kose, M. A., Kurlat, S., Ohnsorge, F., and Sugawara, N. (2022), "A Cross-Country Database of Fiscal Space," Journal of International Money and Finance, 128, 102682.

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Figure 3: Debt Projections Under Different Scenarios (% of GDP)

Figure 3.a: Brazil

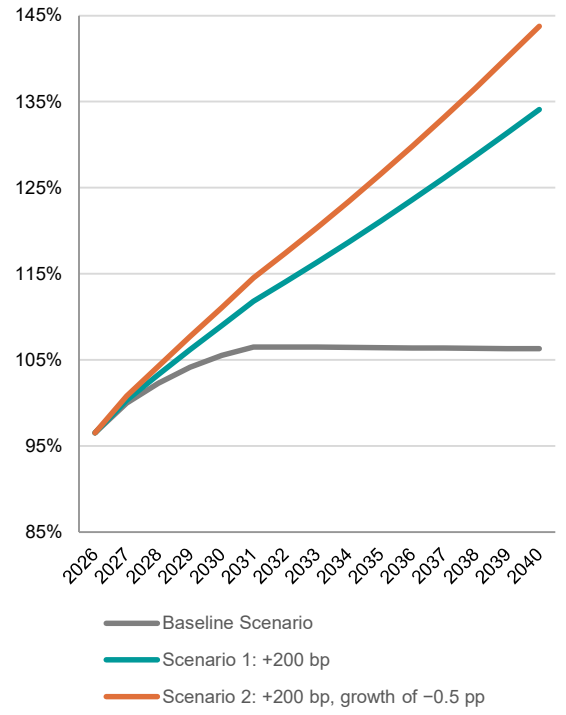

Figure 3.b: Russia

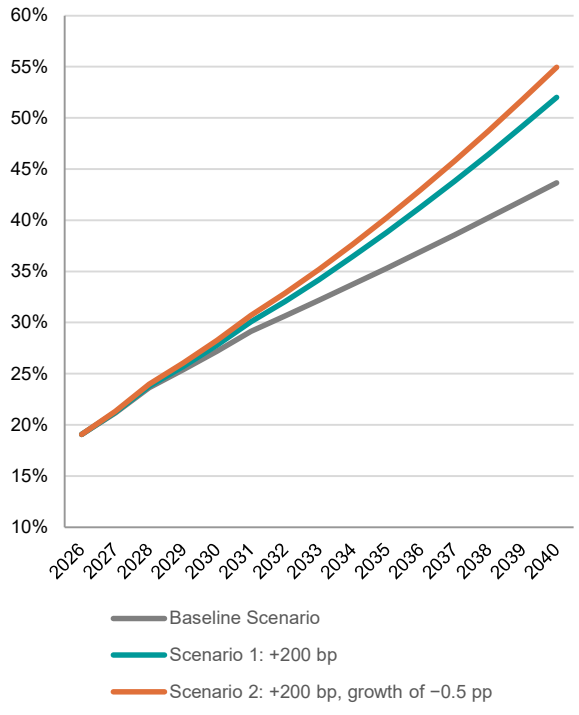

Figure 3.c: India

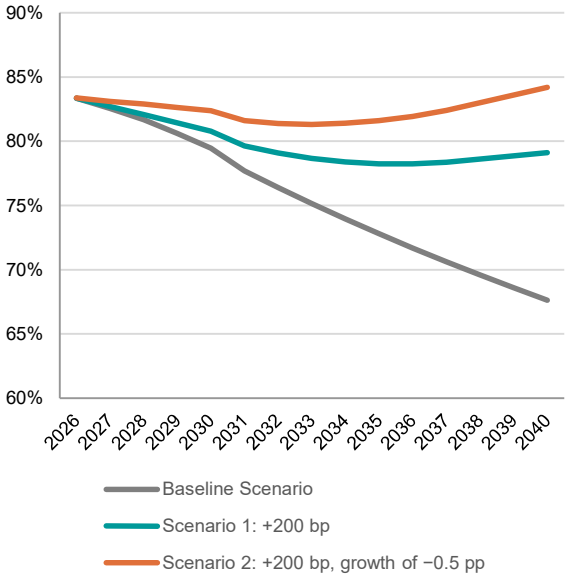

Figure 3.d: China

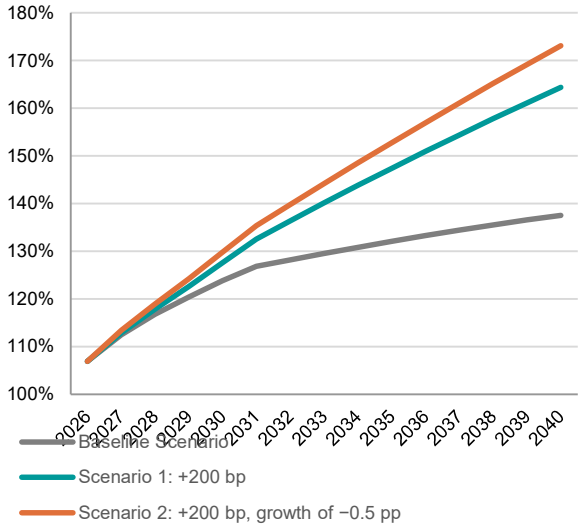

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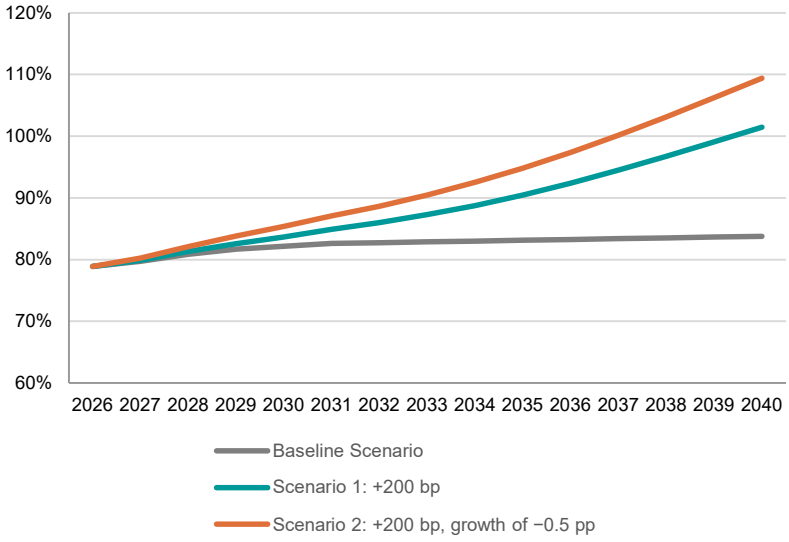
Figure 3.e: South Africa



Source: IMF, GSA calculations

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