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Public debt, while essential for development, can become a significant burden when it grows too rapidly or excessively. This is currently taking place in many developing countries, primarily due to two key factors. First, the need for financing has surged as countries grapple with a series of crises, such as the COVID-19 pandemic, the cost-of-living crisis, and climate change, all of which demand substantial resources. Secondly, an unequal international financial system results in inadequate and costly finance options for developing countries. Accordingly, the weight of this debt hampers developmental progress while rising borrowing costs, currency devaluations, and slow-moving economic growth further compound the challenges for these countries. Ultimately, these factors hinder their capacity to respond to emergencies, and invest in their citizens and their future. Countries are now confronted with the unenviable choice of servicing their debt or meeting the needs of their people.

In this paper, we will discuss global debt levels, with brief emphasis on those of the US and the European zone.

Brief history of global debt

Since the early 1970s, global public debt has tripled, growing from approximately 30% of GDP to over 90% of GDP by 2022. On the other hand, global private debt has shown a more consistent upward trajectory. An exception to this was the reduction in private debt, especially in the household sector in the U.S., following the Global Financial Crisis (GFC). In the decade following the GFC, private debts remained relatively stable in advanced economies (AEs) but increased at a faster rate in emerging markets (EMs), notably in China, and low-income developing countries (LIDCs), even though their starting levels were relatively low. In total, global private debt tripled between 1960 and 2022.

In 2019, the world saw a continuous increase in the debt-to-GDP ratio, a trend that had been ongoing for several decades. This rise was evident in both AEs and LIDCs. In AEs, public debt decreased between 1950 and 1974 as their economies experienced rapid growth after World War II. In contrast, LIDCs saw a surge in public debt during the 1980s and early 1990s, followed by a significant decline in the subsequent decade, aided by debt relief and financial support, often accompanied by structural adjustment reforms. Despite some fluctuations, the overall trend has been upwards.

Interesting to note, China has played a significant role in the global debt landscape as unlike many other countries, the impact of COVID-19 on China's debt levels may not be immediately apparent in debt charts, as its debt has continued to grow since 2020. What is evident, however, is China's remarkable and rapid accumulation of debt over several decades. To put this into perspective, China's total debt-to-GDP ratio has increased nearly fourfold. In the mid-1980s, it was around 70 percent, similar to the average levels in emerging markets (EMs) at that time. By 2022, this ratio had surged to 272 percent of GDP, approaching levels seen in the United States. In terms of actual dollars, China's total debt stands at USD 47.5 trillion, which is still notably lower than the United States' debt (close to USD 70 trillion).

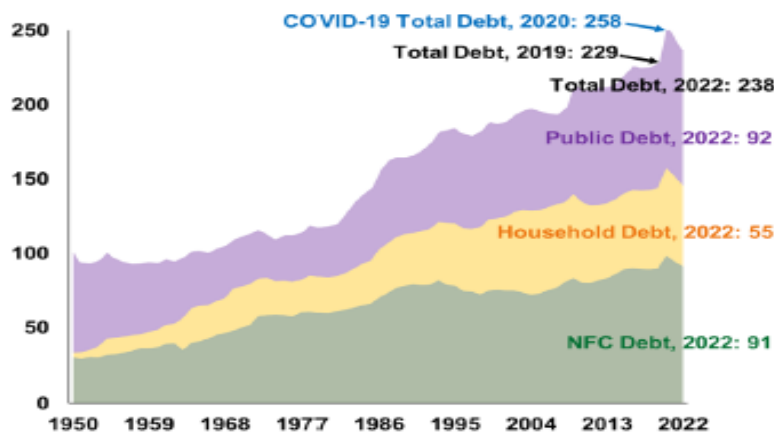
What sets China apart is the unprecedented speed at which its debt ratio to GDP has risen, especially after 2009, primarily due to non-financial corporate debt. When we compare historical

data to a hypothetical scenario where China's debt-to-GDP ratio grew annually at the same rate as the average among other emerging markets, it becomes clear that China has made a substantial contribution to the overall increase in global debt since 2008. In fact, over half of the rise in the global debt-to-GDP ratio between 2008 and 2022 can be attributed to the swift growth of China's debt-to-GDP ratio in comparison to the rest of the world.

Global Public and Private Debt

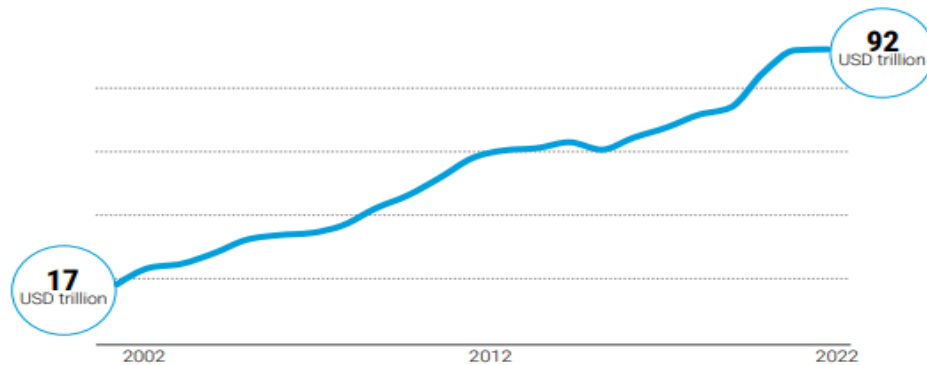
According to the *IMF Global Debt Monitor* (September 2023), the total global debt, which includes both public and private debt, decreased by 10% of the world's GDP, bringing it to 238% of GDP (as shown in the below figure). In terms of US dollars, this debt totaled USD 235 trillion, which was USD 200 billion higher than its 2021 level. This decline over the past two years corresponds to a 20% decrease in relation to GDP. This decrease was facilitated by the resurgence in economic activity following the severe pandemic-induced contraction in its early stages, as well as higher-than-expected inflation. Nevertheless, it's worth noting that this reduction has managed to rectify approximately two-thirds of the substantial surge in global debt that occurred during the pandemic in 2020.

Global Private and Public Debt, 1950-2022 (Percent of GDP):



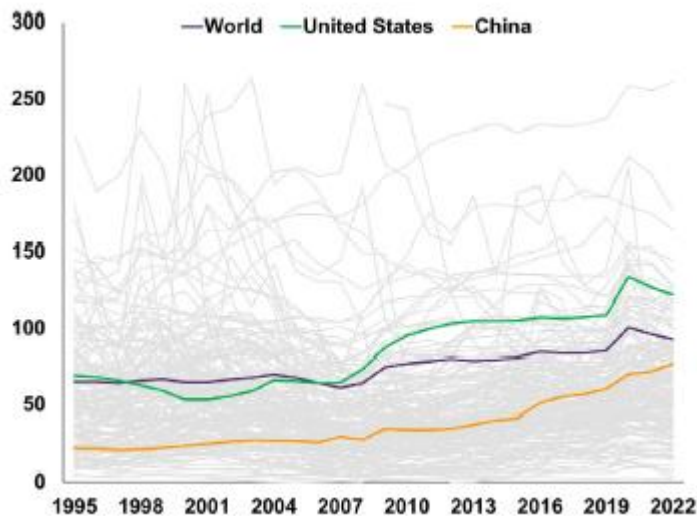
Source: 2023 *Global Debt Monitor* by IMF in September 2023

In recent decades, public debt worldwide has been steadily increasing, and recent crises have significantly accelerated this trend. As a consequence, global public debt has grown more than five times larger since the year 2000, surpassing the growth of global GDP, which tripled during the same period. In 2022, the total global public debt, encompassing both domestic and external debt of general governments, reached a historic high of USD 92 trillion. Developing nations are accountable for nearly 30% of this debt, with China, India, and Brazil collectively contributing around 70% of that portion. Interestingly, 3.3 billion individuals reside currently in countries that allocate more funds to interest payments than to education or healthcare. In this scenario, a world dominated by debt disrupts both the well-being of people and the health of our planet.

Global public debt (USD Trillion):


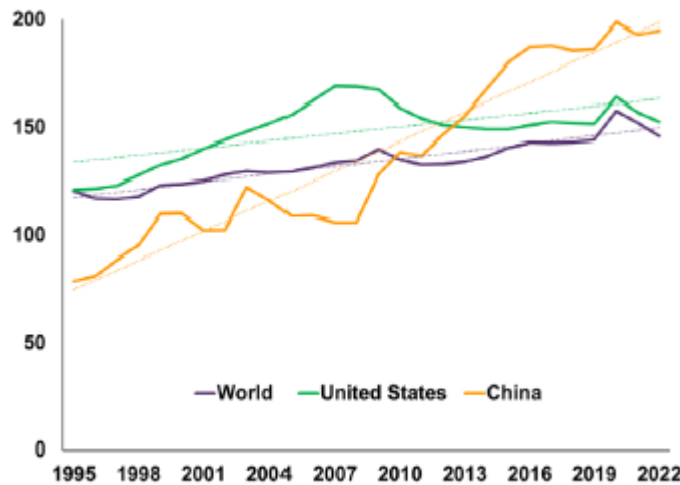
Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

Moreover, the growth of public debt has outpaced that of developed countries in the past decade, particularly in developing nations. This surge in debt in the developing world can be primarily attributed to escalating requirements for development financing. Factors such as the impact of the COVID-19 pandemic, the cost of living crisis, and the challenges posed by climate change have exacerbated these financial needs, with limited alternative funding options available. Consequently, the count of countries grappling with elevated debt levels has surged significantly, escalating from a mere 22 nations in 2011 to 59 nations by 2022.

Global Public Debt, 1995-2022 (Percent of GDP):


Source: 2023 Global Debt Monitor by IMF in September 2023

As for the global private debt, it witnessed a decline that encompasses household and non-financial corporate debt, and was the primary driver of this overall reduction. It decreased by 6.4 percentage points to reach 146 percent of GDP in 2022 or approximately USD 144 trillion. The cumulative decrease of 12 percentage points in global private debt over the last two years nearly offset the 14-percentage point surge in 2020, bringing it close to its 2019 levels.

Global Private Debt, 1995-2022 (Percent of GDP):


Source: 2023 Global Debt Monitor by IMF in September 2023

Debt developments exhibited varying trends across different country groups and debt types in 2022. In the case of advanced economies (AEs), they played a leading role in reducing overall debt levels. Their average debt declined by 12.2 percentage points, reaching 278 percent of GDP by the end of 2022. This decline was driven by a notable deceleration in private debt, which was spurred by tighter monetary policy and financial conditions in the same year. Household and non-financial corporate debts in AEs approached their pre-pandemic levels, standing at 74 and 93 percent of GDP, respectively. Public debt in AEs also continued to decrease, ending the year at 114 percent of GDP. However, it still remained 8 percentage points higher than its pre-pandemic level.

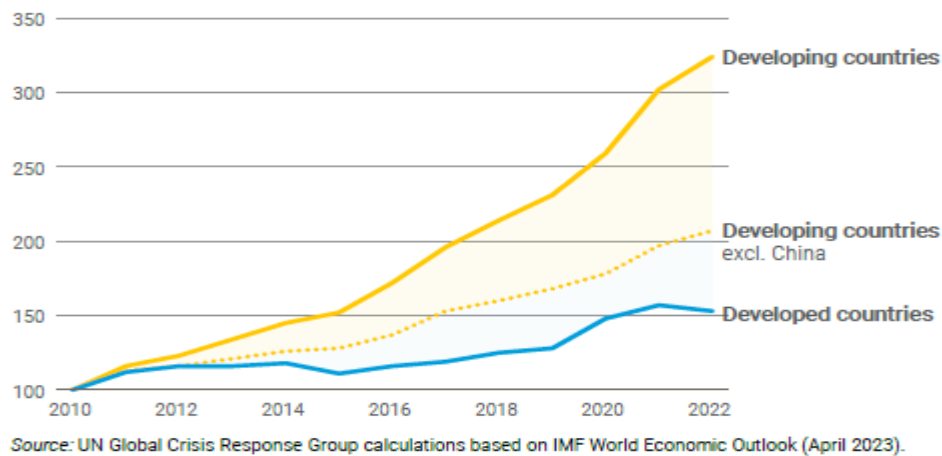
In 2022, emerging markets (excluding China) witnessed a 7.6 percentage point decrease in debt relative to GDP, bringing it to 124 percent. Similar to advanced economies (AEs), this reduction was primarily driven by a decrease in private debt, which fell by 4.5 percentage points to reach 69 percent of GDP. Notably, household and non-financial corporate debts also dipped below their pre-pandemic levels in 2022. Public debt saw a 3 percentage point decline during the same period. However, it's essential to recognize that the decrease in public debt over the past two years only reversed two-thirds of the surge experienced during the pandemic. Public debt remained at 55 percent of GDP, which is 3.3 percentage points higher than its pre-pandemic level in 2019.

In contrast, China's debt in 2022 increased by 7.3 percentage points of GDP, reaching 272 percent of GDP. Unlike most other countries, China saw a continuous rise in public debt in 2021-2022, with a 7 percentage point increase to reach 77 percent of GDP. Private debt also saw an increase in 2022, reaching 195 percent of GDP. In summary, the total debt in 2022 surpassed its pre-pandemic level by 25 percentage points of GDP.

Debt levels in low-income developing countries (LIDCs) did not decrease; instead, they increased by approximately half a percentage point of GDP, reaching 88 percent of GDP in 2022. This rise was primarily due to a similar increase in private debt, which hit a new high at 39 percent of GDP in 2022. Concurrently, public debt remained at 48 percent of GDP. Many LIDCs, especially those heavily reliant on foreign borrowing, saw their debt burdens grow due to exchange rate depreciation. Dealing with the increased financial requirements resulting from the aftermath of the pandemic, and the pressure to address the cost-of-living crisis, has made it more challenging to reduce debt. These factors have negatively impacted risk perceptions for LIDCs, leading to difficulties in accessing financial markets and resulting in more stringent financing terms.

Public debt is growing faster in the developing world:

Index: outstanding public debt in 2010=100

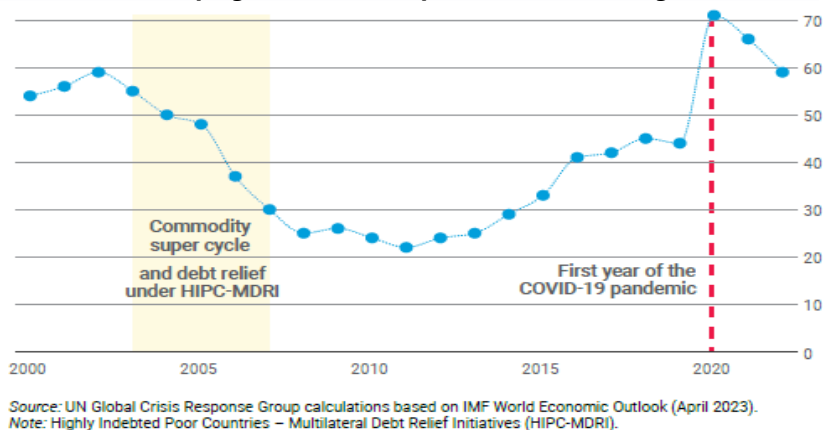


However, Developing nations grapple with an international financial framework that amplifies the adverse consequences of successive crises on sustainable progress. This system increases the weight of debt on their development efforts, as it limits their ability to access affordable development funding, forcing them to resort to costlier borrowing options. Consequently, this heightened vulnerability makes it even more challenging to effectively address and resolve debt-related crises. In the period from 2010 to 2021, developing countries witnessed a substantial increase in their total public debt, rising from 35% of their Gross Domestic Product (GDP) to 60%. Furthermore, the external public debt, which constitutes the portion of a government's debt owed to foreign creditors, also experienced an escalation from 19% of GDP to 29% in 2021. This surge in debt levels relative to developing countries' capacity to generate foreign exchange through exports indicates a growing challenge in meeting their external debt obligations.

Specifically, the ratio of external public debt to exports climbed from 71% in 2010 to 112% in 2021. Simultaneously, the portion of external public debt service in comparison to exports increased from 3.9% to 7.4% during this same period. These trends signify a worsening situation in the ability of developing countries to generate enough revenue to service their external debt commitments.

Additionally, high levels of external public debt expose developing nations to increased vulnerability in the face of external shocks. Changes in global financial conditions or heightened risk aversion among international investors can lead to abrupt spikes in borrowing costs. Likewise, currency devaluation in a country can result in a significant surge in foreign currency-denominated debt payments, thereby reducing the funds available for development expenditures.

Number of developing countries with public debt exceeding 60% of GDP:



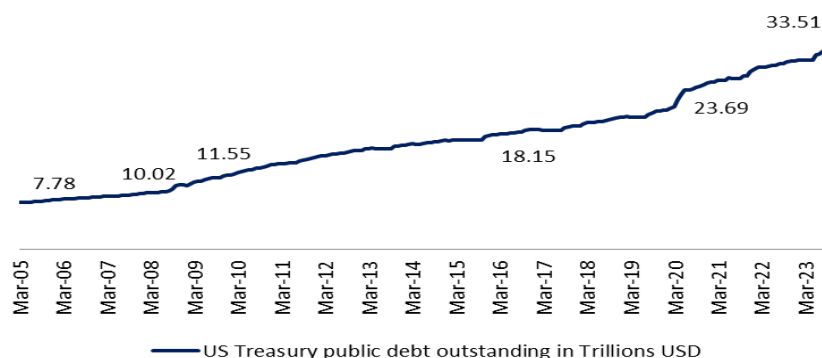
US National Debt

The United States has carried a national debt since its inception. Initially, debts accumulated during the American Revolutionary War exceeded \$75 million by January 1, 1791. Over the subsequent 45 years, this debt continued to grow until 1835 when it notably reduced, thanks to the sale of federally-owned lands and budget cuts. However, an economic depression shortly thereafter caused the debt to once again surge into the millions. During the American Civil War, the debt experienced an astonishing growth of over 4,000%, skyrocketing from \$65 million in 1860 to \$1 billion in 1863 and to approximately \$2.7 billion shortly after the war concluded in 1865.



Over the past 100 years, the U.S. federal debt has increased from \$405 B in 1923 to \$33.17 T in 2023. In more recent times, significant spikes in the national debt were triggered by notable events such as the Afghanistan and Iraq Wars, the 2008 Great Recession, and the COVID-19 pandemic. From fiscal year 2019 to fiscal year 2021, government spending increased by approximately 50%, primarily due to the impact of the COVID-19 pandemic. Tax cuts, stimulus programs, increased government spending, and reduced tax revenue resulting from widespread unemployment have been the primary drivers of sharp increases in the national debt.

US Treasury public debt outstanding in Trillions USD (Mar 2005-Oct 2023):



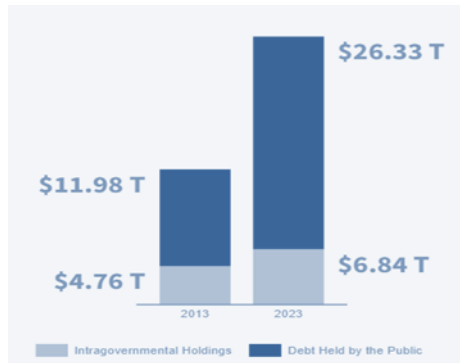
Source: Bloomberg

Breakdown of the US debt:

There are two major categories for federal debt: debt held by the public and intragovernmental holdings. The debt held by the public has increased by 120% since 2013. Intragovernmental holdings increased by 44% since 2013. The graph below illustrates the contrasting growth trends between public debt and intragovernmental debt, both of which contribute to the overall national

debt. These two debt categories have experienced differing growth patterns in recent years. A significant factor contributing to the increase in public debt can be attributed to the heightened spending on programs and services during the COVID-19 pandemic. In contrast, intragovernmental debt hasn't seen as substantial an increase because it primarily comprises debt arising from agencies' surplus revenue invested with the Treasury. The revenue generated by the largest investor in Treasury securities, the Social Security Administration, has not seen significant growth in recent years, resulting in a slower rise in intragovernmental holdings.

Intragovernmental Holdings and Debt Held by the Public, CY 2013 and CY 2023:



Source: US, fiscaldata.treasury.gov

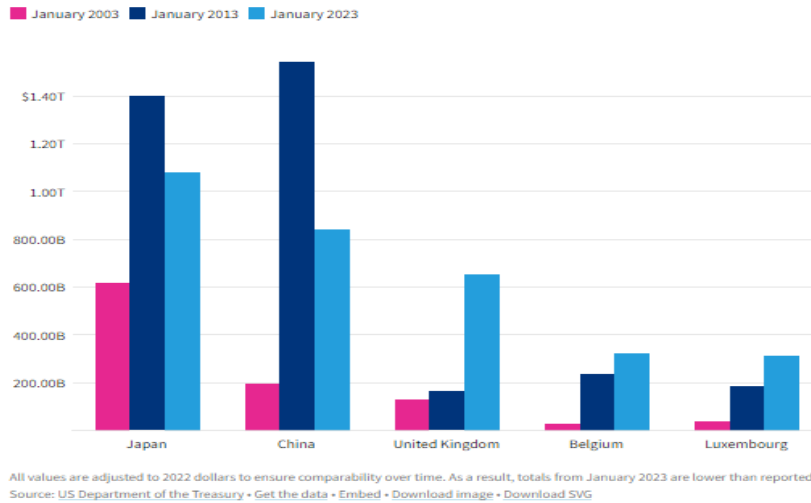
Who hold the majority of us debt?

The top five foreign holders of US debt in January 2023 are Japan, China, the United Kingdom, Belgium, and Luxembourg. Russia, China, and Indonesia reduced their US Treasury holdings due to sanctions and other factors.

Country/territory	US foreign-owned debt (January 2023)
Japan	\$1,104,400,000,000
China	\$859,400,000,000
United Kingdom	\$668,300,000,000
Belgium	\$331,100,000,000
Luxembourg	\$318,200,000,000
Switzerland	\$290,500,000,000
The Cayman Islands	\$285,300,000,000
Canada	\$254,100,000,000
Ireland	\$253,400,000,000
Taiwan	\$234,600,000,000

Source: USA Facts

In the past two decades, Japan and China were the leading foreign nations holding US Treasuries. Japan's ownership increased from \$534 billion to over \$1 trillion, and China's from \$101 billion to \$855 billion between 2000 and 2022. They once held nearly half of all foreign-owned US debt but now control around 25% as of 2022.

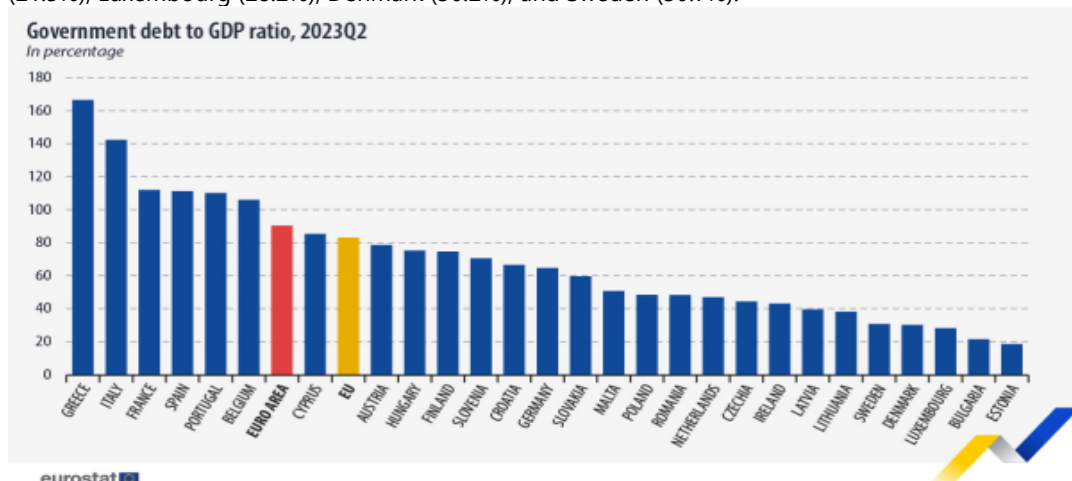


Source: USA Facts

EU and Euro Zone National Debt

By the end of the second quarter of 2023, the debt-to-GDP ratio for general government in the euro area (EA20) was 90.3%, a slight decrease from 90.7% in the first quarter. In the wider EU, this ratio saw a decrease from 83.4% to 83.1%. This decline in government debt relative to GDP can be attributed to the increase in GDP outweighing the growth in government debt for both the euro area and the EU. Additionally, when compared to the second quarter of 2022, the government debt to GDP ratio dropped in both the euro area (from 93.5% to 90.3%) and the EU (from 85.9% to 83.1%). Debt securities constituted 83.4% of euro area government debt and 82.9% of EU government debt, while loans comprised 13.8% and 14.3%, respectively, and currency and deposits accounted for 2.8% of euro area and 2.7% of EU government debt. The inclusion of EU Member States' governments in lending to certain Member States led to the publication of quarterly data on intergovernmental lending (IGL), which amounted to 1.6% of GDP in the euro area and 1.3% in the EU at the end of the second quarter in 2023.

However, the countries with the highest government debt to GDP ratios at the end of the second quarter in 2023 were Greece (166.5%), Italy (142.4%), France (111.9%), Spain (111.2%), Portugal (110.1%), and Belgium (106.0%). Equally, those with the lowest ratios were Estonia (18.5%), Bulgaria (21.5%), Luxembourg (28.2%), Denmark (30.2%), and Sweden (30.7%).



Conclusion

A growing number of nations are facing a challenging predicament in which their progress and capacity to handle debt are undermined. Presently, no fewer than 19 developing countries allocate a greater portion of their resources to servicing debt interest than to funding education, while 45 such nations allocate more resources to interest payments than healthcare. In total, 48 countries are home to 3.3 billion people, and their access to education and healthcare is significantly hampered by substantial interest payment obligations.

A lesson drawn from recent historical trends suggests that once debt experiences a significant increase, it rarely reverts to its previous levels. After a tumultuous three-year period, it is anticipated that global debt will rise once again in the medium term if we continue with business-as-usual practices. The macroeconomic conditions that temporarily improved debt ratios in 2021-2022 are unlikely to persist, with real GDP growth slowing down and inflation stabilizing at a lower level as of the July 2023 WEO Update. If global debt resumes its upward trajectory, the debt fluctuations experienced during the pandemic will appear as nothing more than a brief deviation from its long-term upward trend, even at relatively low debt levels.

More broadly, to alleviate debt burdens, it is crucial to boost medium-term global growth, as outlined in the July 2023 WEO Update. Implementing structural reforms to enhance potential output at the national level would contribute to this objective. Furthermore, international cooperation on taxation and carbon pricing could alleviate pressure on public financing and stimulate essential private investments by pooling resources.

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