Global Debt

By J. Smith (2022)

1. Global debt can be defined as a combination of worldwide government, household and corporate debt. In 2020, it surpassed $200tn and is currently estimated to be fast approaching $300tn, **which** is more than three times the annual economic output of the world and equivalent to each of the 7.7bn people on Earth owing $32,500 (CNBC, 2020). As the world has never before been as indebted as **it** is currently, finance experts and economists across the globe are asking policymakers to act quickly and decisively in the face of a potentially devastating, emerging crisis.

2. In order to measure which countries have the largest debts, the debt to Gross Domestic Product (GDP) metric is used to compare what a country owes with what **it** can produce. Currently, Japan has the highest national debt in the world, with 234.18% of GDP and a national debt of over $9tn, followed by Greece at 181.78% of GDP and with national debt of $379bn. Also in the top ten of countries with the biggest debts is the United States with a debt-to-GDP ratio of 106.70%. The UK's stands at 85.67% of GDP and in China, the world's largest economy, **its** national debt has increased from 41.54% to 54.44% of GDP (World Population Review, 2022). According to Corporate Finance Institute (2022), for developed economies, above 77% debt-to-GDP is a concern, as each additional percentage point of debt is equivalent to a loss of 0.017 percentage points of annual growth, whereas for emerging markets, the threshold is even lower at 64%, and equal to a loss of 0.02 percentage points.

3. As several countries have debt-to-GDP ratios considerably over the threshold, it is to be expected that overall global debt would reach record levels, currently 256% of GDP, of which two-fifths is public debt at 99%. In advanced economies in particular, **who** have low interest rates and central banks for support, the increase in public debt from 70% of GDP in 2007 to 124% in 2020 is comparable to the increase seen during the financial crisis of 2008, yet for emerging markets and low-income countries, which often face limited access to funding and higher borrowing rates, total debt rose from 54% to almost 170% of GDP in 2018, and now public debt is more than double than that of the time of the financial crisis, of which the same could be said for private debt in advanced economies, currently at 178% of GDP (The World Bank Group, 2022; Gaspar et al., 2021). **These** increases in both public and private debt can be largely attributed to the onset of the Covid-19 pandemic, in which borrowing by governments was used to boost the fragile economy and support the private sector to help protect livelihoods, yet despite advanced economies and China accounting for more than 90% of the $28tn increase in borrowing in 2020, it is emerging markets and low-income developing countries who will find it much harder to pay back their debts (CNBC, 2020; Gaspar et al., 2021).

4. Although this impending crisis greatly worries experts, it is not the first financial crisis that has arisen. In fact, experts often refer to the surge in global debt as 'waves'. Between 1970 and 2009 there were three waves of debt, wherein advanced economies, on the one hand, experienced regulatory easing of their financial markets leading to mega-banks, cross-border connections between lenders, and more debt accumulating in the private sector, **which** went unnoticed as GDP was also growing, yet on the other hand, developing markets were becoming dependent on borrowing heavily and being forced to devalue their currencies (CNBC, 2020; The World Bank Group, 2022). What is common among all three waves, according to the World Bank Group (2022) is that **they** all started during periods of promoting borrowing and low interest rates and ended in either a global economic downturn or recession, which is also what could happen with the current fourth wave, except this time it involves public and private debt with new types of creditors and is much more widespread.

5. As a conclusion, as the World Bank Group (2022) warns of the likelihood of another serious financial crisis, due to economic slumps in emerging markets, high levels of inflation and weak growth

prospects in an already fragile economy, 'policymakers must find the right mix of fiscal and monetary policies to achieve the right balance between policy flexibility, nimble adjustment to changing circumstances, and commitment to credible and sustainable medium-term fiscal plans' (Gaspar et al., 2021). The extraordinary amount of debt amassed, coupled with how fast and far-reaching **it** has accumulated, the effects of the latest global debt crisis could be felt for many years to come.

Reference list

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