**Global debt**

*Many covid-19 affected countries have taken the right measures to prop up their economies through unprecedented fiscal and monetary injections. So far, this prevented their economies from sinking into a deep depression. However, more fiscal and monetary support may result in unsustainable debt levels. This column looks into the matter with a special concern for poor countries.*

How large is the world’s public debt? *The Economist Intelligence* *Unit* runs a so-called public debt clock which provides an up-to-date figure of debt incurred by governments. As you look it up, you can see that the world’s public debt is increasing while watching it. Given the very large covid-19 inspired fiscal and monetary rescue measures, this is not surprising. When I recently looked the public debt clock up, total global public debt was more than $59 trillion (i.e., 59 plus 12 zero’s). And surely, this figure will further increase this year. Even more impressive is the *total* global debt figure, so, including private debt. *The Institute of International Finance’s* website says that pandemic-driven recovery measures pushed global debt-to-GDP to a new record of $ 258 trillion – the equivalent of 331% of Global Domestic Product. These are sobering, near-incomprehensible figures, putting sustainability of debt levels of some countries in jeopardy.

But let us look at the other side of the equation: savings. Unlike public debt, savings are mainly accumulated by persons, not governments. Some influential economists, such as Harvard’s Larry Summers, talk of *a savings glut*; that is saving more than investing, resulting in an ever larger mountain of savings. What do global saving figures tell us? It is hard to find an exact amount of global savings; the latest estimate I came across stood at $ 250 trillion.

A simple conclusion would be that the accumulated debt to date could more or less be covered by the accumulated amount of savings. But this conclusion is -of course – incorrect. After all not all savings are kept in a savings account. Most savings are held in two forms: real estate and in pension portfolios. In addition, people who save will only part from their savings if they expect to earn an income from it. Investing one’s savings in e.g. bonds of governments with a questionable reputation of repaying loans (as some poor or poorly governed countries), will obviously not take place. These countries must rely on soft loans issued by development banks, such as the World Bank, or from bilateral donor countries, including China. In case of a sudden balance-of-payments crisis, the International Monetary Fund (IMF) will provide credits to help restore order in the country’s finances in the short term. Countries needing more time, such as many African countries during the 1980s and 1990s, could apply for IMF stabilisation credits of a longer duration. By the way, IMF’s short-term credits are not limited to developing countries. In the 1970s for example, the United Kingdom had to call in IMF’s help. More recently, Greece had to be assisted by the IMF, together with loans from the European Central Bank and the European Stability Mechanism.

Running a debt is not worrisome as long as the creditor trusts that the debtor will pay back the principal plus interest. For most rich countries this is not a problem; their credibility is confirmed by credit rating agencies such as Moody’s or Fitch. Two examples. My home country, the Netherlands enjoys a triple-A status by these agencies. The other day our Minister of Finance auctioned Dutch Treasury Certificates worth Euros 1.4 billion. Within four minutes(!) all certificates had been bought up. Then, Japan. The country enjoys an A+ rating, despite the fact that the country is running a huge government debt of more than 240% if its GDP. Financial markets do not get nervous of Japan’s huge debt.

The outlook for most poor developing countries is quite different. During the G-20 meeting, held last April, a Debt Service Suspension Initiative (DSSI) was launched for them. This could free up more than $20 billion for 73 poorest debtor countries by suspending repayments on loans from G-20 governments. One G-20 member is China – and a formidable lender at that! Its loans include soft loans from the government, semi-soft loans from so-called policy banks and profit-seeking loans from state-owned commercial lenders. China accounts for 20% of the total foreign debt by these 73 - in particular African - countries (and 30% of their debt service this year). That is more than all of the Paris Club lenders, including the US, Britain and Japan. Particularly serious is Djibouti’s situation: 40% of its total debt is owed to China.

There is talk of debt forgiveness, taking into consideration the weak financial position of most poor developing countries plus the extra investments they have to do in countering the covid-19 pandemic. Uganda, for instance, spends more on servicing its debt than it can spend on providing health services. However, most poor countries hesitate to ask for debt forgiveness as it will negatively affect their international credit rating; which in turn will limit their access to the international bond market.

It is yet early days to tell how DSSI will work out in practice. The only conclusion that can be drawn now is that debt forgiveness for the poorest countries is a likely scenario.

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