



# **Brief Observations on Developed Economy Debt**

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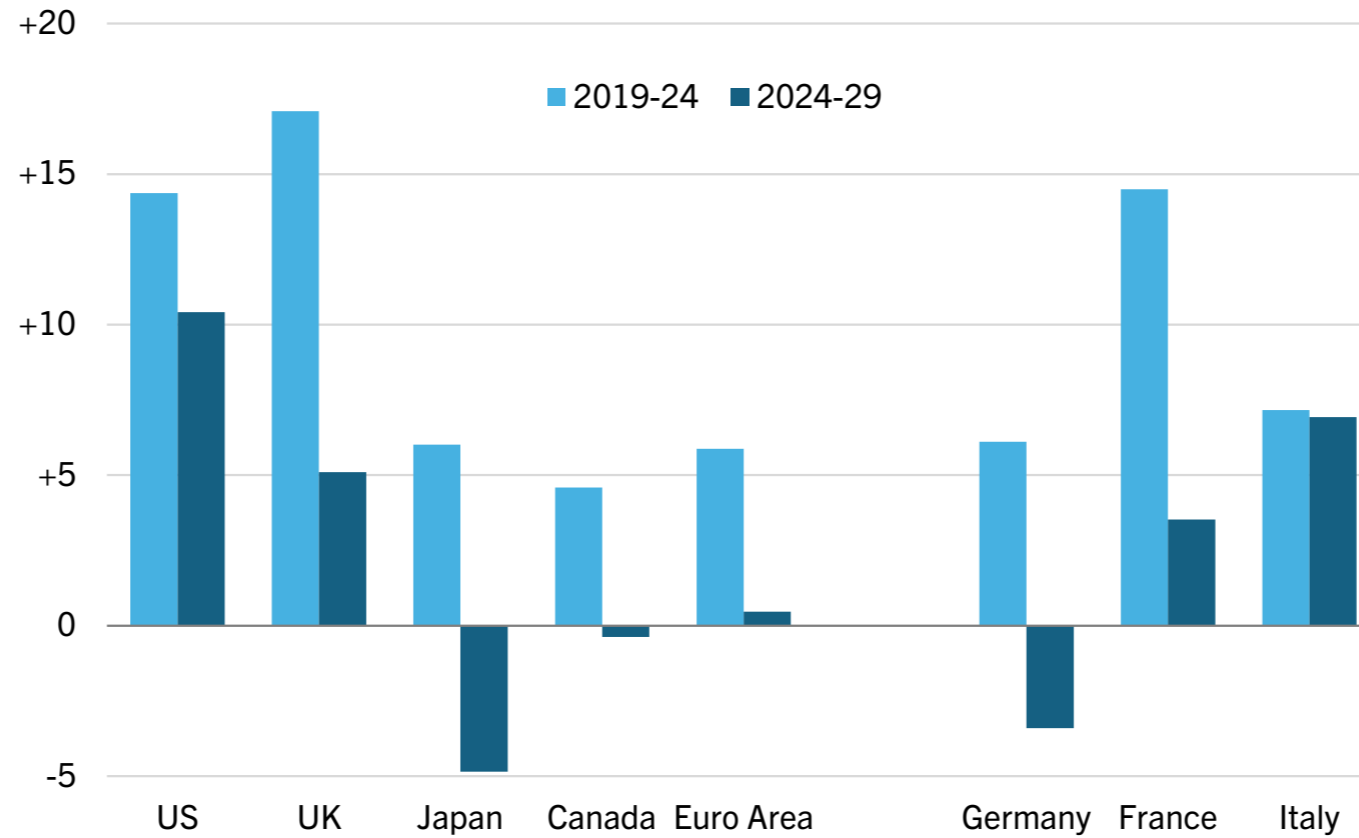
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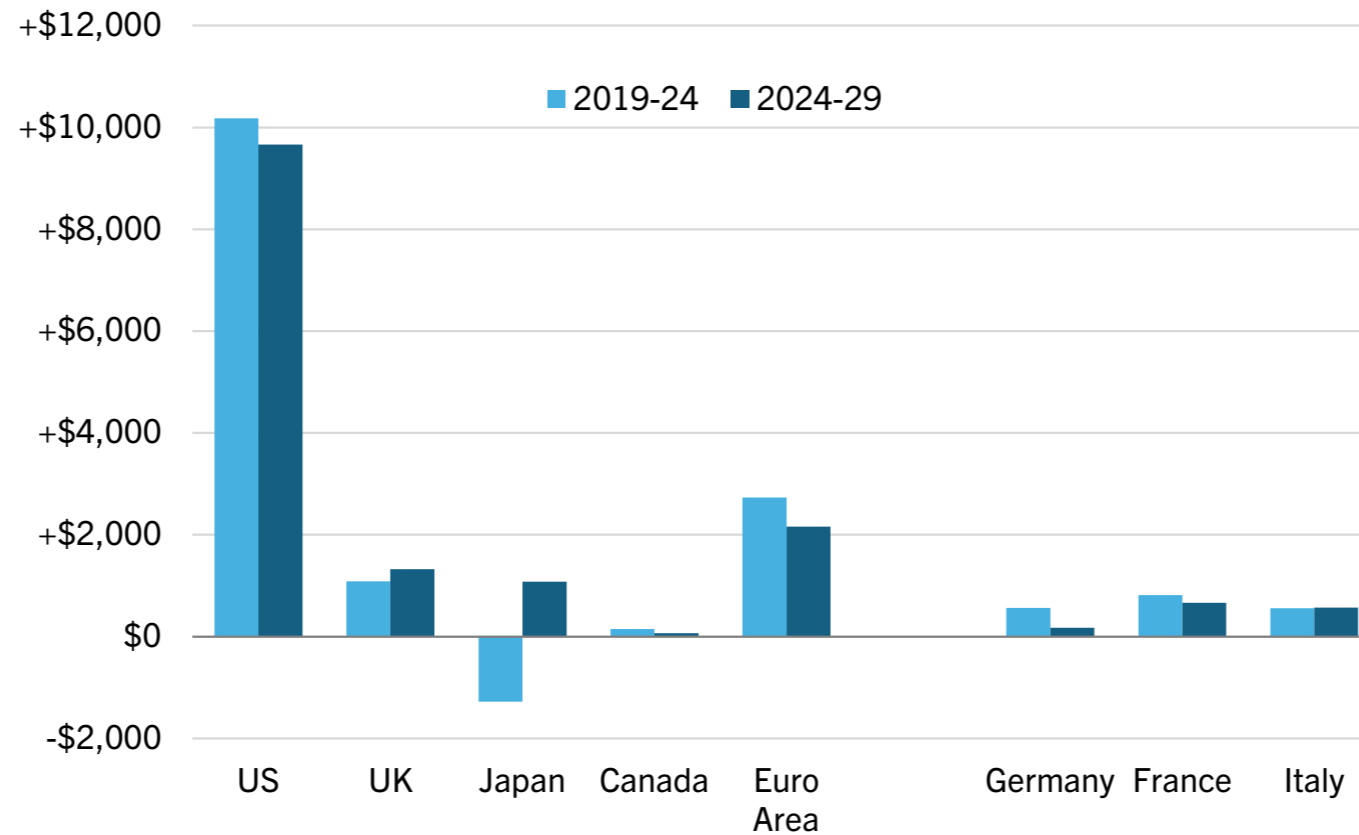
# Near-term growth in DM debt will primarily be US-driven.

**Change in General Government Net Debt-to-GDP**  
Percentage points of GDP



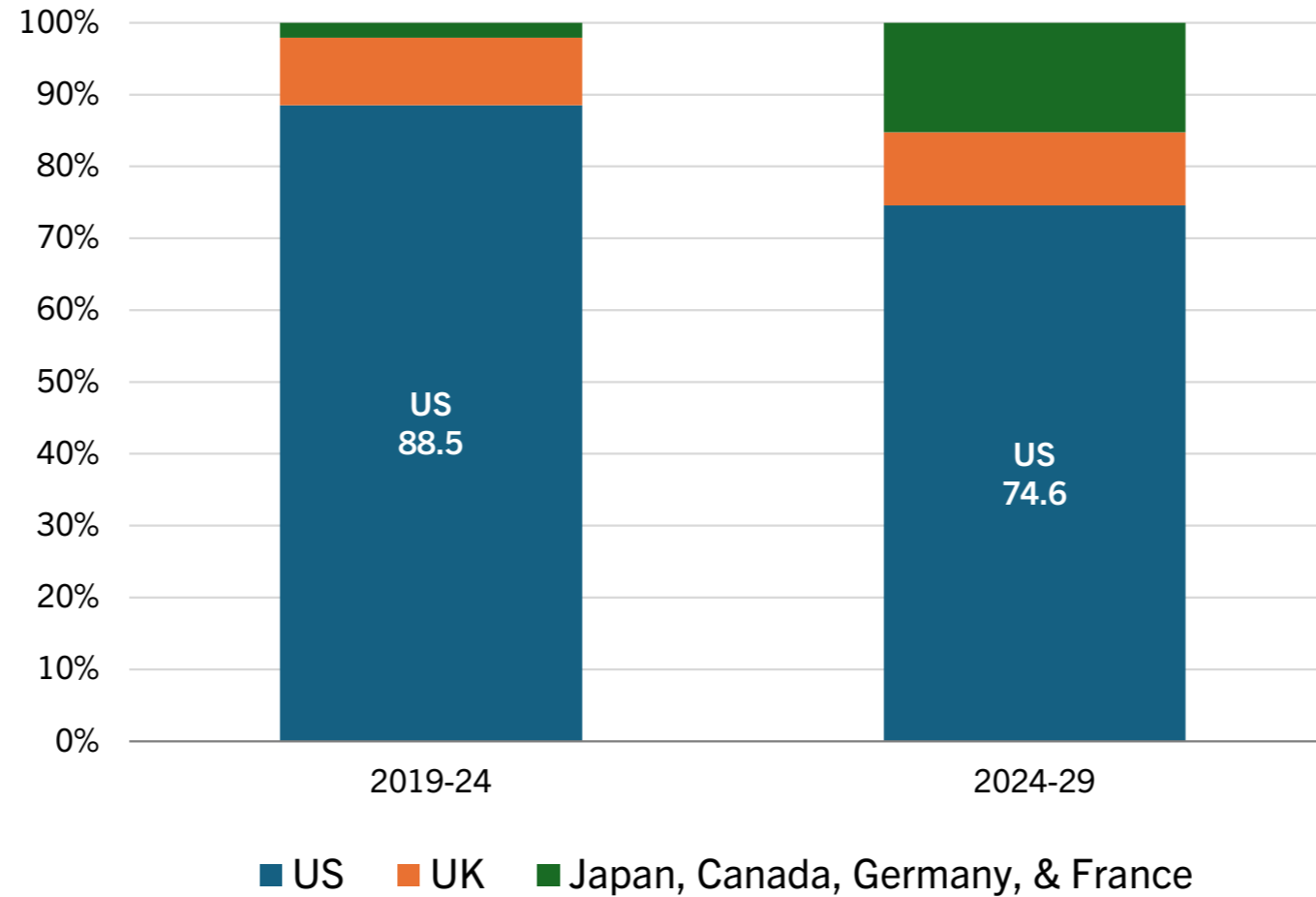
# Near-term growth in DM debt will primarily be US-driven (cont).

**Change in General Government Net Debt**  
\$billions

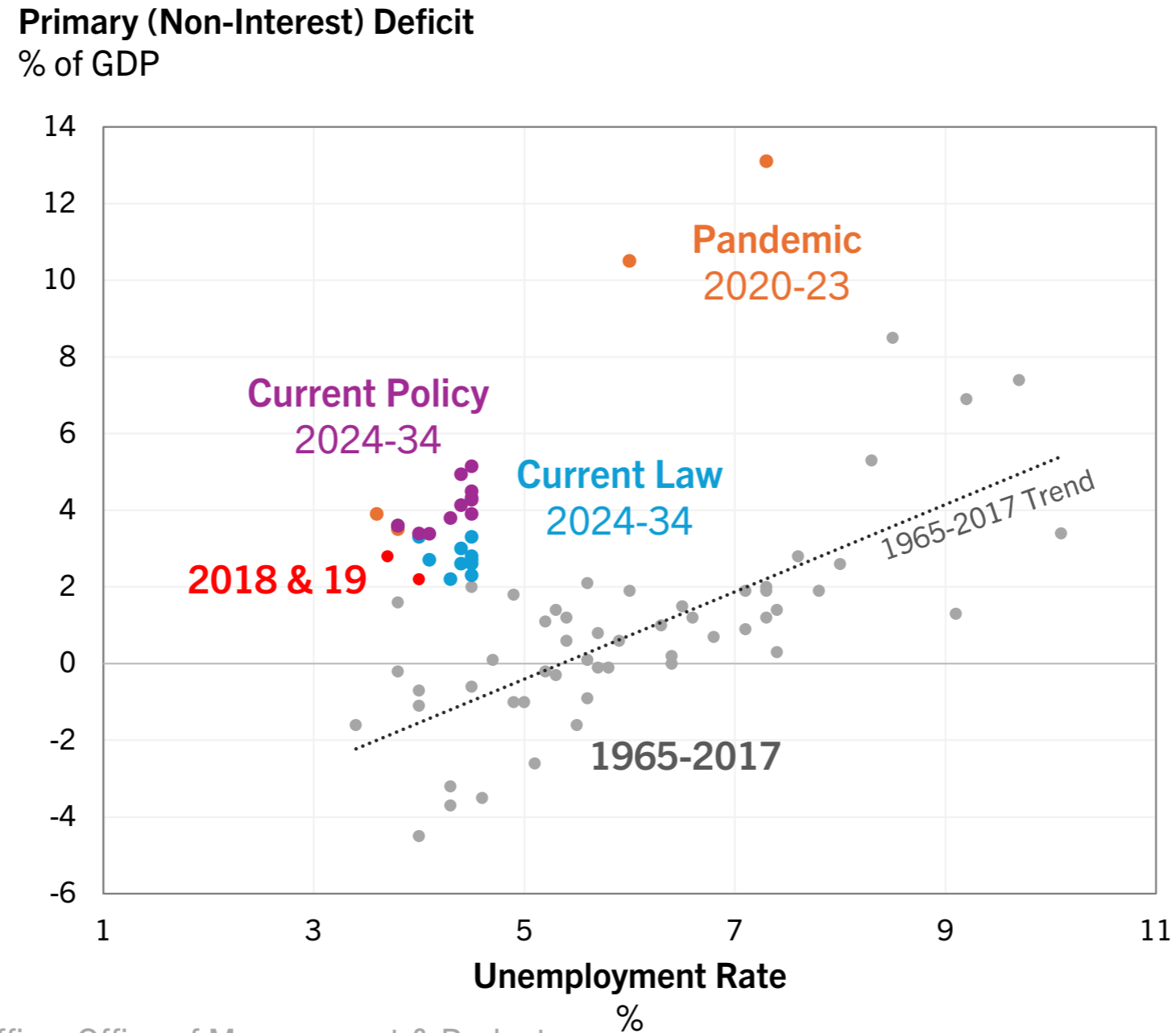


# Nevertheless, US debt will increasingly have competition for safety.

Change in General Government Net Debt  
\$ billions, percent of total



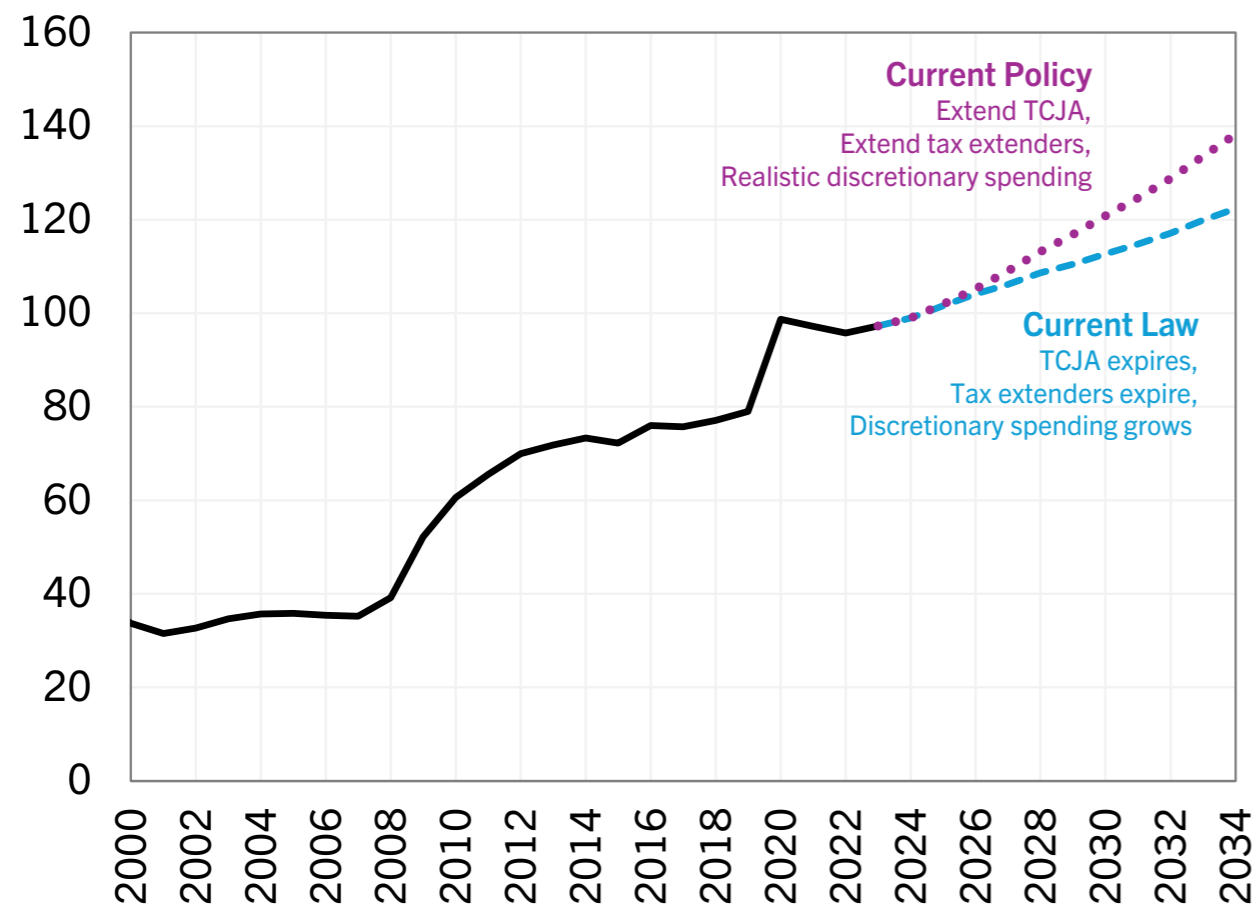
# US deficits are structurally higher now: higher transfers & lower revenues.



Source: Congressional Budget Office, Office of Management & Budget.

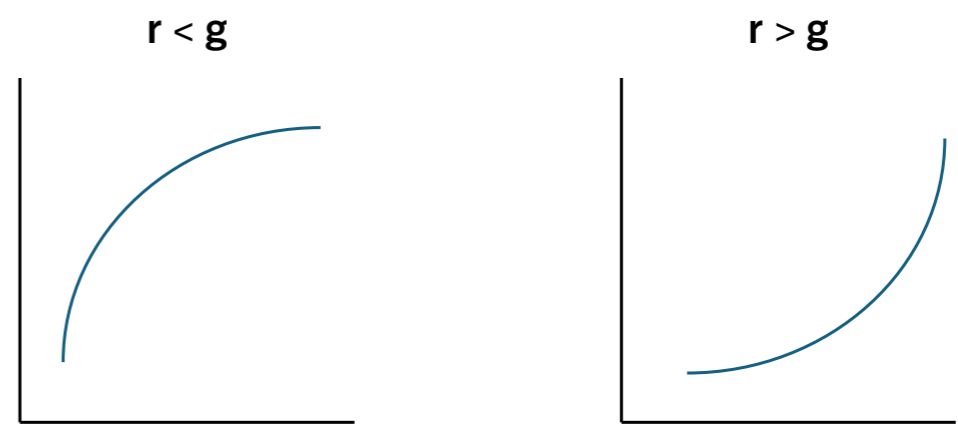
# US debt is unsustainable (growing faster than the economy)...

## Federal Debt-to-GDP Ratio



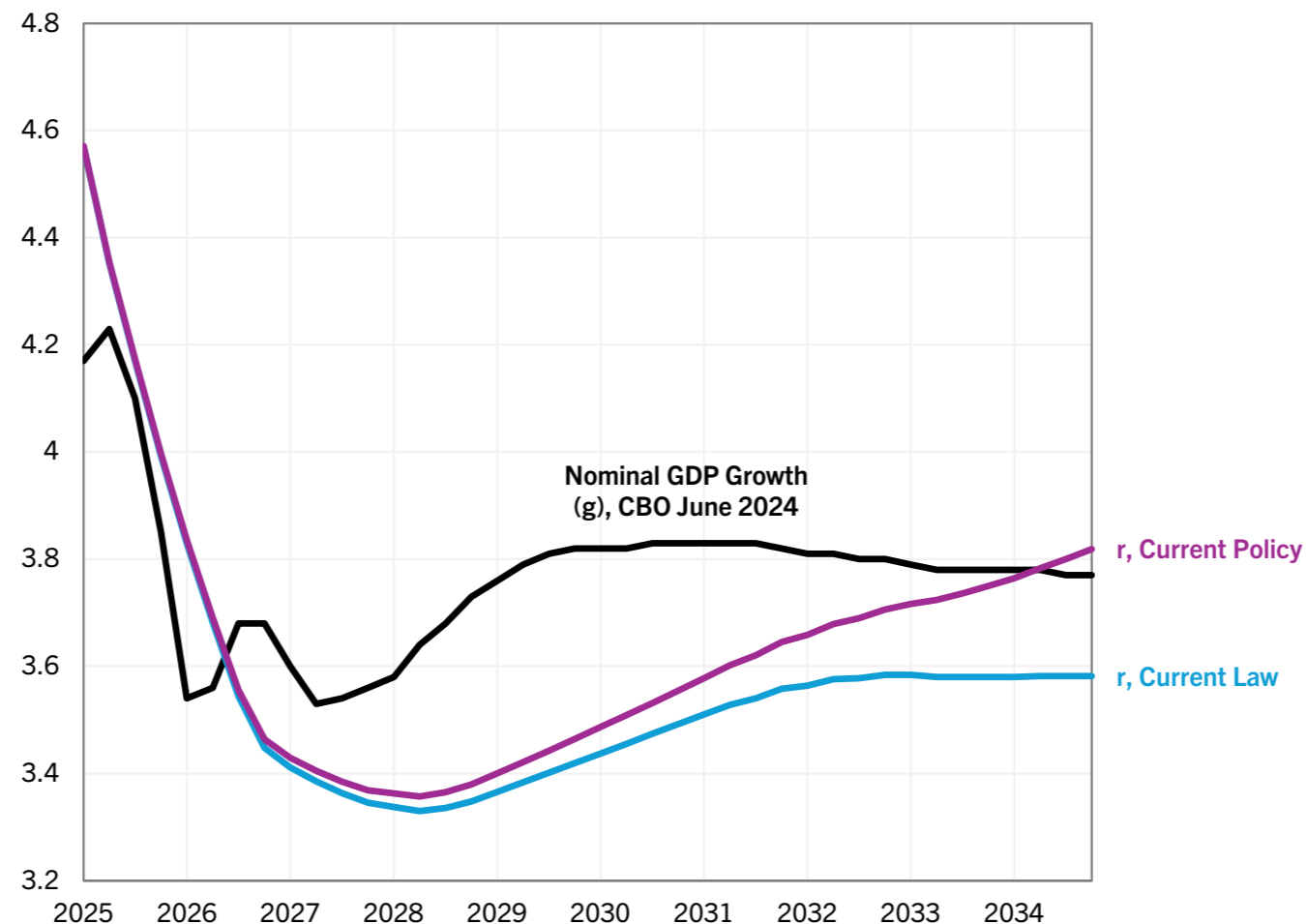
$$\underbrace{\frac{B_t}{Y_t} - \frac{B_{t-1}}{Y_{t-1}}}_{\text{Change in debt-to-GDP}} = \underbrace{(r - g)}_{\text{Interest rate minus growth rate}} \times \underbrace{\frac{B_{t-1}}{Y_{t-1}}}_{\text{Last year's debt-to-GDP}} + \underbrace{\frac{G_t - T_t}{Y_t}}_{\text{Primary deficit-to-GDP}}$$

### Debt-to-GDP dynamics under r and g



...though conditions themselves are still sustainable under current law.

Average Nominal Interest Rate on US Federal Debt ( $r$ ) and Nominal US GDP Growth ( $g$ )



# Discussion