Global public debt to hit $100 trillion

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The International Monetary Fund (IMF) has forecast that global public debt will reach over $100 trillion by the end of this year, equivalent to 93 percent of global GDP, and hit 100 percent by the end of this decade.

The forecast, set out in a summary of the *Fiscal Monitor Report* prepared for meetings of the IMF and World Bank next week, made clear that stabilising debt levels in the countries where it is growing fastest will require reductions in government spending on a scale larger than anything seen in the past.

The rise in debt levels is accelerating, having increased by 10 percentage points relative to global GDP since 2019, before the pandemic hit.

While the summary noted that in some countries debt levels were stabilising, about two thirds of the total, they would nevertheless remain "well above levels seen before the pandemic."

But pointing to the scope of the problem it continued: "Countries where debt is not predicted to stabilise account for more than half of global debt and about two thirds of global GDP."

These include the US, the UK, Brazil, France, Italy and South Africa. It called for immediate action saying any delay "will make the required adjustment even larger."

While it was not dealt with directly in the summary of the report, this crisis is centred in the US where government debt is rapidly approaching $36 trillion and one dollar in every seven is used just to pay interest on past debts.

The IMF has called for urgent action.

"Waiting is risky: country experiences show that high debt can trigger adverse market reactions and constrains room for budgetary manoeuvre in the face of negative shocks."

In short, the longer there is a delay in what the IMF considers to be necessary action, the greater the danger of a financial crisis.

The scale of the reduction it has advocated is unprecedented.

"Cumulative fiscal adjustment"—a euphemism for continuous cuts in government spending—amounting to 3.0-4.5 percent of GDP would be needed to stabilise or reduce debt, it said.

"The magnitude of the required fiscal adjustment is higher than that currently projected, and almost twice the size of past adjustments, especially in countries where debt is not projected to stabilise."

In other words, the kind of cuts in government spending which the IMF says must now be caried out will put into the shade the previous cuts made in vital social services, such as health, education and income support.

As is often the case, the IMF report tried to cover its prescriptions with window-dressing references to the need for the maintenance of social safety needs and the safeguarding of public investment to limit the negative impact on output.

It referred to gradual but sustained adjustment that would "strike a balance between debt vulnerabilities and maintaining the strength of private demand" and warned that "fast-track consolidation" would require "politically unfeasible hikes in tax rates as well as spending cuts."

However, the very next sentence in the report contradicted this assessment of a gradual reduction.

It said that "economies with high risk of debt distress," that is some of the largest economies in the world, and "those that have lost market access," that is some of the poorest where at present interest payments alone already outweigh spending on items such as health and education, needed "front-loaded adjustment."

In other words, debt adjustments had to begin with a frontal assault on spending.

The issuing of the summary of the report well in

advance of the meeting convening, somewhat contrary to normal practice at the twice-yearly conferences, is an indication that the IMF regards the issue of government debt as a central priority.

This is highlighted by the headline of an IMF Blog posting on the report, which read “Global public debt is probably worse than it looks.”

It noted that “past experience suggests that debt projections tend to underestimate actual outcomes by a sizable margin. Realised debt-to-GDP ratios five years ahead can be 10 percentage points of GDP higher than projected on average.”

The IMF said that a new “debt at risk” model showed that “in a severely adverse scenario global public debt could reach 115 percent of GDP in three years—nearly 20 percentage points higher than currently projected.”

And to underscore the demand for urgent action, the blog post said that if public debt is actually higher than it looks, “current fiscal efforts are likely smaller than needed.”

This point was emphasised in the summary which said that “risks to the debt outlook are heavily tilted to the downside and much larger fiscal adjustments than currently planned are required.”

Risk factors identified by the IMF include weaker economic growth, tighter financing conditions, economic and political uncertainty and spillover effects from “greater policy uncertainty in systematically important countries, such as the United States.”

The report also pointed to “sizable unidentified debt” arising from losses in state-owned ventures which increased sharply during periods of financial stress.

The crisis in government debt is part of a process stretching across the entire economy and its financial system which has been created by the ability of banks and finance houses to gorge on the ultra-cheap money provided by the world’s major central banks from 2008 to 2022 when interest rates were lifted.

In a comment piece published in the *Financial Times* yesterday under the headline “The great wall of debt,” Michael Howell, the managing director at the London-based firm Crossborder Capital, wrote that “we are already walking into the foothills of another crisis.”

Next year and in 2026, he said, investors would have to confront the problem of refinancing debt taken out when interest rates were at rock bottom.

“Similar refinancing tensions have helped trigger several past financial meltdowns such as the 1997?98 Asian crisis and the 2008?2009 financial crisis.”

Howell challenged what he called the “standard textbook argument” that viewed capital markets as mechanisms for financing productive capital spending. That was not the case and “under the current weight of world debt, estimated by the Institute of International Finance to be $335 trillion in the first quarter, they have turned into huge debt refinancing mechanisms.”

In a world dominated by debt refinancing, he continued, around three out of four trades in financial markets simply refinance existing debts. This means that “a whopping near $50 trillion of global debt must be rolled over on average each year.”

The debt numbers—public and private—have vast economic and political implications. They signify a deepening crisis of global capitalism for which the ruling classes have no solution other than war for markets and profits combined with ever deepening assaults on the working class carried out with the force of the capitalist state.

For the working class this crisis underscores the imperative of a political struggle for socialism, that is the struggle to take political power in its own hands in order to carry out the complete reorganisation of the economy.