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DEBT SUSTAINABILITY

A Global Perspective

Ludger Schuknecht
Asian Infrastructure Investment Bank



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Abstract: This Element presents the facts, arguments and scenarios around public debt from a global perspective. The largest economies especially feature record debt and fiscal risks, including from population ageing and financial imbalances. With low interest rates, there is no imminent problem. But at some point, debt will have to come down. There are four possible scenarios for how debt could come down. First, governments could economise and reform. Second, governments could default. Third, governments could erode the real value of debt via inflation and negative real interest rates. However, this scenario cannot continue forever. Policy errors can prompt a loss of confidence, destabilisation and crisis. This fourth scenario last included the largest economies in the 1970s. It would become a major global challenge if it were to happen again in today's interconnected world.

Keywords: private and public debt, debt sustainability, public expenditure, financial stability, debt scenarios

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