Global Public Debt Crisis

Why in news?

The recent UN report highlights a historic peak in public debt, reaching $97 trillion in 2023.

What is Public Debt?

- **Public debt** – It is the total amount, including total liabilities, *borrowed by the government of the country* to meet its development budget.
- The countries must pay back the principal and interest on the loans they take out.
- **Borrowing sources** – From private capital markets, international financial institutions and form other countries.
- **Importance** – It can be a powerful *tool for development*, enabling governments to finance critical expenditures and invest in a better future for their people.

Public Debt of India
• **In India** – It refers to *overall liabilities of central and state governments*, but the Union government clearly distinguishes its debt liabilities from the states. • It has to be *paid from the Consolidated Fund of India*. • **Sources of public debt** – They are dated government securities (G-Secs), treasury bills, external assistance, and short-term borrowings. • Liabilities of the central government – It is classified into two categories - debt contracted against the Consolidated Fund of India, and public account. • **Internal debt** – It constitutes *over 93%* of the overall public debt. • Internal loans that make up for the bulk of public debt are further divided into two broad categories - *Marketable and non-marketable debt*. • **Current status** – The Union government's liabilities account for a little *over 46% of India's GDP*. • However, if the public debt is calculated as general government liabilities, which also includes the liabilities of states, this goes *up to 68% of the country's GDP*.

According to the Reserve Bank of India Act, 1934, the RBI is both the banker and public debt manager for the government. It handles all

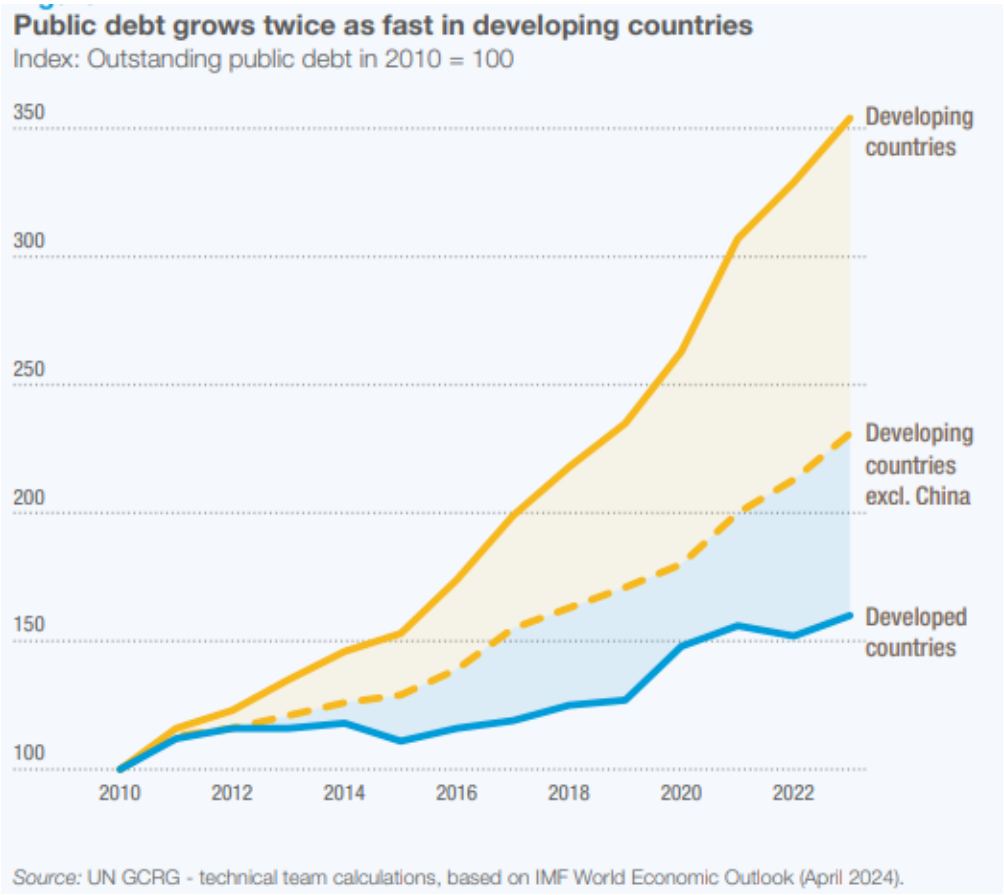
the money, remittances, foreign exchange and banking transactions. The Union government also deposits its cash balance with the RBI.

What is status of global debt crisis?

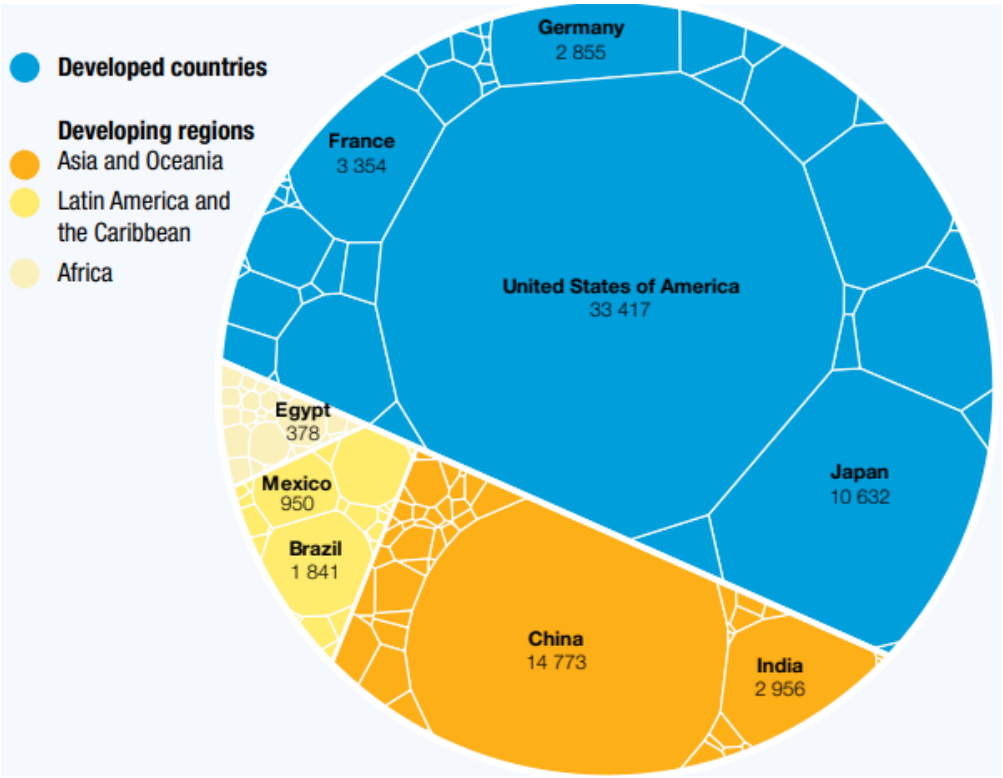
- **Public debt crisis** – When public debt grows excessively or rapidly, it becomes a heavy burden, particularly for developing countries.
- The recent report "***A World of Debt 2024***: A Growing Burden to Global Prosperity" explores the issues related to global public debt crisis.
- It was published *by UN Trade and Development* (UNCTAD).

UN Trade and Development (UNCTAD)
• It is the UN's leading institution dealing with trade and development. • It is a part of UN Secretariat. • **Membership** – *195 countries*, one of the largest in the UN system. • **Functions** – It *supports developing countries* to access the benefits of a globalized economy more fairly and effectively. • It provides *economic & trade analysis* and facilitate consensus-building. • It offers *technical assistance* to help developing countries use trade, investment, finance and technology for inclusive and sustainable development

- **Key findings of the report** – Global public debt continues to increase rapidly, driven by cascading crises as well as the sluggish and uneven performance of the global economy.
- **Rising global debt** - In 2023, public debt, comprising domestic and external general government debt, *reached US$ 97 trillion*, a US$ 5.6 trillion increase from 2022.
- Of the total global debt, business debt stands at first followed by public debt and household debt respectively.
- **Status of developing countries** – They share 30% of the total global debt.



- **Higher interest payment** – In 2023, the amount the developing countries spent in interest payment *saw a 21% increase* over 2021 which is up to four times that of the US.
- Among them one out of every three countries spends more on interest payments than on these critical areas for human development.
- **Disparity among developing countries** – *Over three-quarters* of this debt is owed *by countries in Asia and Oceania.*



- Countries that have the least capacity to repay are also the ones serving loans the most.
- The global financial architecture is no longer capable of meeting the needs of the world in the twenty-first century.

What are the major challenges of rising global debt?

- **Unmanageable level of debt**: While debt, or borrowing, is an established way to fund personal, institutional and national expenditures, it has reached an unmanageable level where borrowers divest *much of the revenues to just serve debt*, primarily in terms of interests.
- **Higher Individual debt** – It is high which can *amount to about $39,000* if we divide the total global debt by the total population that are about 8.1 billion.
- **Shortage of funding** – Serving loans is a key expenditure for many countries that keeps them *away from development funding*, like on health and education.
- **Lack of development** – Debt becomes a risk when the respective country doesn't have the capacity to repay.
- Such countries has to divert funds to just serve the debt while *slashing budgets for development programmes*.
- **Dearth of support** – The support to lessen debt among developing countries in terms of relief and other actions has also trickled from US$4.1 billion in 2012 to US$300 million in 2022.

- **Falling aid** – Aid has *fallen in the last two years*.
- The growing public debt for developing countries could be a direct fall out of the changing profile of development aid.
- *Concessional loans are replacing aid* thus also adding to developing countries' debt.
- **Non fulfillment of SDG goals** –As the countries are drowning in *unprecedented levels of debts*, it hinders the progress in achieving the Sustainable Development Goals (SDGs) targets by 2030.

What lies ahead?

- The UN has outlined a roadmap to fast-track sustainable development in the *SDG Stimulus package*, focusing on three key areas:
  - *Tackling the high cost of debt* and rising risks of debt distress.
  - Massively scaling up affordable *long-term financing* for development.
  - Expanding *contingency financing* for countries in need.
- The effective participation of developing countries in the governance of global financial systems needs to be improved.

References

1. Down to Earth | Rising Global Debt Crisis
2. UNCTAD | A world of Debt Report

