

## 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 from 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.

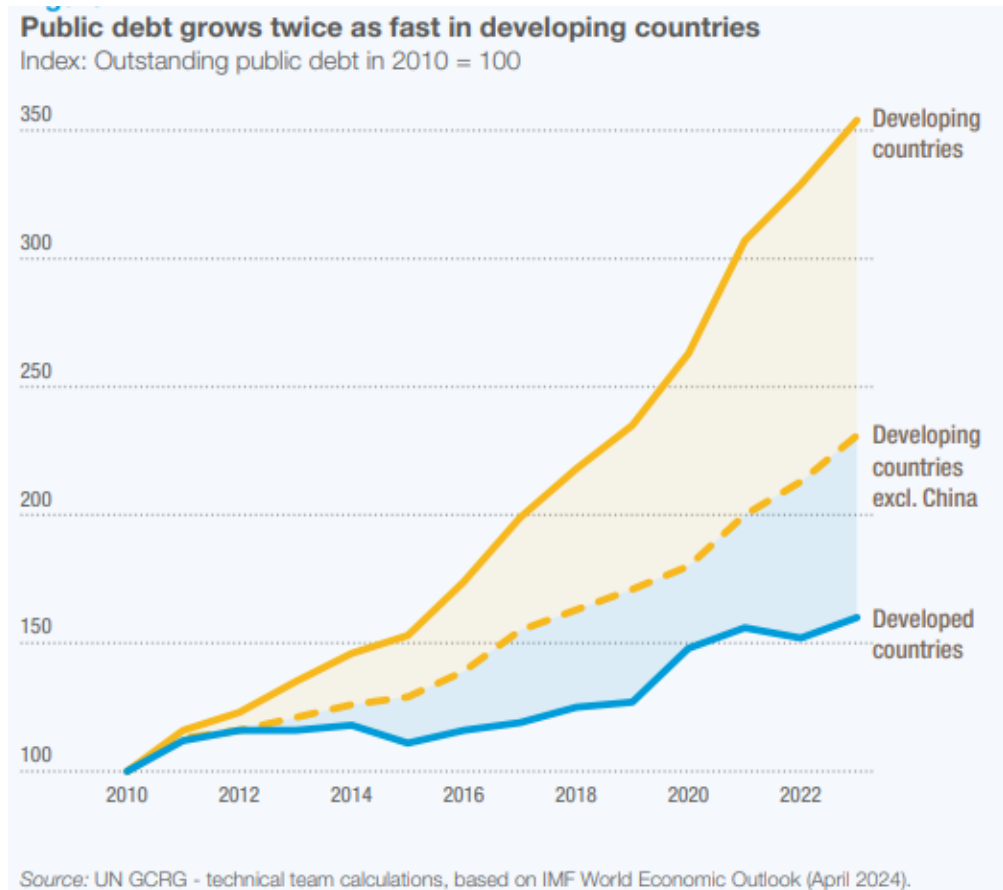
## What is status of global debt crisis?

- **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).

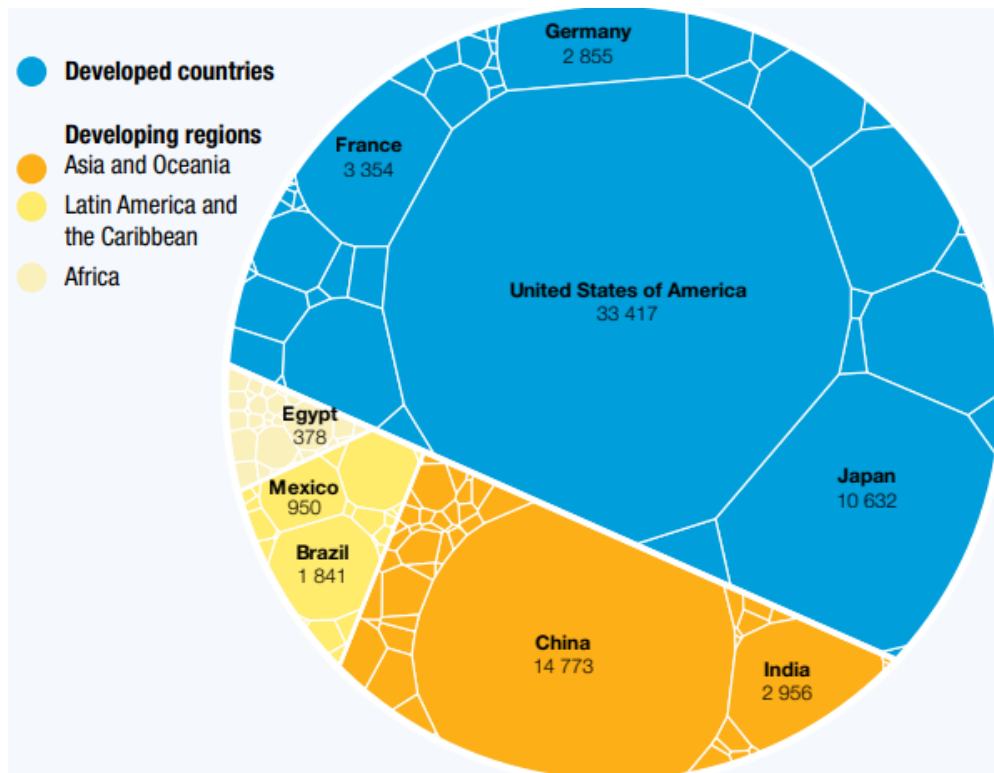
### UN Trade and Development (UNCTAD)

- 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](#)

