Think Strategically

BIRLING CAPITAL ADVISORS, LLC

The Debt Burden of the G-20 Nations, How does the US Stack up?

May 29, 2023

by Francisco Rodríguez-Castro
frc@birlingcapital.com

Comparing the Debt to GDP Ratio of 20 Key Nations

Ather the announcement made by President Biden that he and House Speaker McCarthy had reached a Debt Ceiling and Budget agreement in principle that represents a compromise, which means not everyone will be happy with the results.

The current impasse surrounding the U.S. Debt Ceiling and all the high-stakes drama has made many of us think about how the U.S. compares when measured by the Sovereign Debt Burden of each nation. Suppose you are wondering what it all means. In that case, allow me to explain; an analysis of the Debt-to-GDP ratio in a sovereign debt study is a comprehensive examination of a country's debt burden relative to the size of its economy. This ratio provides valuable insights into a nation's fiscal health, its ability to manage its debt obligations, and its public finances' overall sustainability.

When conducting such an analysis, several critical components are considered:

1. Debt Measurement: to measure a country, one must have all types of debt, such as government bonds, treasury bills, loans, and other liabilities. The analysis should encompass both domestic and external debt.
2. GDP Measurement: represents the total value of goods and services produced within a country's borders over a specific period. Accurate GDP measurement is crucial for understanding the country's economic output and capacity to generate debt repayment revenue.
3. Debt Composition: Analyzing the composition of a country's debt is essential for understanding its risk profile. Factors such as the proportion of foreign currency-denominated debt, the maturity structure, and the interest rate on debt instruments impact a nation's vulnerability to external shocks, exchange rate fluctuations, and refinancing risks.
4. Economic Context: Assessing the broader economic context is essential for interpreting the debt-to-GDP ratio accurately. Inflation, unemployment rates, economic growth, income inequality, and productivity levels influence a country's ability to service its debt.
5. Policy Implications: the policy implications and potential risks associated with a high or rapidly increasing percentage. Policymakers to make informed decisions on debt management strategies, fiscal consolidation measures, and structural reforms.

6. International and Comparative Perspective: Placing the analyzed debt-to-GDP ratio within an international and comparative perspective is crucial for benchmarking a country's debt burden. Comparing the ratio to other nations, particularly those within the same economic grouping, such as the G20, provides insights into relative strengths and weaknesses.

Having expanded our discussion, we now compare the Sovereign Debt Burden of the United States with G20 nations and key trading partners as of 12/2022. Please note that the rankings and specific figures may have changed since then.

1. **China:** debt-to-GDP ratio has increased significantly in recent years. In 2022, it was approximately **279.70%.** The increase in debt levels can be attributed to factors such as rapid credit expansion, infrastructure investments, and economic stimulus measures.
2. **Japan:** As of 2022, its debt-to-GDP ratio was approximately **263.90%.** Large fiscal deficits and an aging population have primarily driven the country's debt level.
3. **Italy:** has consistently had a high debt-to-GDP ratio. In 2022, its ratio stood at around **144.7%,** making it one of the most indebted countries within the G20. The high debt levels can be attributed to slow economic growth, increased government spending, and a large public sector.
4. **Spain:** debt-to-GDP ratio fell by more than five percentage points in 2022, the steepest decline ever, to **113.1%** after the ratio had gained more than 20 percentage points in the pandemic due to strong economic growth and a responsible fiscal policy.
5. **France:** has a relatively high debt-to-GDP ratio, with a ratio of approximately **113.79%** in 2022. The country's debt burden is driven by government spending, social security programs, and a comparatively slow pace of economic growth.
6. **United Kingdom:** debt-to-GDP ratio increased significantly after the COVID-19 pandemic. In 2022, it was approximately **99.60%.** The country implemented substantial government spending on economic stimulus and social support programs, contributing to the increase in the debt-to-GDP ratio.
7. **United States:** the U.S. debt-to-GDP ratio is relatively lower than other G20 nations. In 2022, its ratio was around **97%**. Factors contributing to the U.S. debt include deficit spending, social welfare programs, and military expenditures.
8. **India:** the debt-to-GDP ratio has generally been higher than the G20 average. As of 2022, it was around **92%**. Fiscal deficits, subsidies, and public-sector borrowing influence the country's debt burden.
9. **European Union:** the E.U.'s overall debt-to-GDP ratio in 2022 was approximately **91.60%**. Individual E.U. member states' debt levels vary, influenced by economic conditions, fiscal policies, and sovereign debt market.
10. **Argentina:** Argentina has a relatively high debt-to-GDP ratio. In 2022, it was approximately **79.30%.** Economic crises, currency devaluations, and fiscal challenges have driven the country's debt burden.
11. **Brazil:** its debt-to-GDP ratio in recent years. In 2022, it stood at approximately **73.10%.** Economic downturns, fiscal deficits, and increased public spending have influenced the country's debt burden.
12. **Canada:** the debt-to-GDP ratio has been relatively moderate compared to other G20 nations. As of 2022, its ratio was around **71.30%.** The Canadian government has implemented fiscal measures to manage its debt levels, and the country has benefited from a diversified economy, natural resources, and prudent fiscal management.

13. **South Africa:** debt-to-GDP ratio has increased in recent years. In 2022, it was approximately **70.10%.** Factors contributing to the debt levels include slow economic growth, fiscal deficits, and rising government debt.
14. **Germany:** has traditionally maintained a comparatively low debt-to-GDP ratio. In 2021, it stood at roughly **66.53%,** making it one of the least indebted nations within the G20. The country has benefited from solid fiscal management, a robust export-oriented economy, and a stable political environment.
15. **Mexico:** Mexico's debt-to-GDP ratio has increased in recent years. In 2021, it was approximately **55%**. Factors contributing to the debt burden include fiscal deficits, lower oil prices, and increased government spending.
16. **South Korea:** has maintained a relatively low debt-to-GDP ratio compared to many other G20 nations. As of 2022, it was approximately **49.60%.** The country has focused on fiscal prudence, export-oriented economic growth, and technological advancements.
17. **Australia:** has managed to maintain a relatively low debt-to-GDP ratio. In 2022, it was around **33.80%.** The country's debt levels have been kept in check due to prudent fiscal policies, a resilient economy, and natural resource wealth. Australia has implemented measures to maintain fiscal discipline and manage its debt burden effectively.
18. **Turkey:** debt-to-GDP ratio has increased in recent years. In 2022, it was approximately **31.70%.** The country has faced challenges in managing its debt burden and maintaining economic stability due to fiscal imbalances, currency depreciation, and political uncertainties.
19. **Saudi Arabia:** Saudi Arabia's debt-to-GDP ratio has increased in recent years. In 2022, it stood at roughly **23.80%.** The increase in debt levels can be attributed to factors such as lower oil prices, fiscal deficits, and increased government spending. The country has implemented fiscal reforms and diversification strategies to address its debt levels and reduce dependence on oil.
20. **Russia:** has a relatively low debt-to-GDP ratio compared to the G20 average. In 2022, it stood at roughly **23%**. Energy prices, economic sanctions, and fiscal policies influence the country's debt burden.

First and foremost, a low debt-to-GDP ratio provides a solid foundation for economic growth and development. It allows governments to allocate resources efficiently, invest in critical infrastructure, and foster an environment conducive to innovation and entrepreneurship. By keeping debt levels in check, countries can attract foreign investments, create job opportunities, and improve living standards for their citizens.

Moreover, a prudent fiscal policy with a low debt-to-GDP ratio enhances a nation's resilience to economic shocks and uncertainties. In times of crisis, countries with lower debt burdens have more room to maneuver and implement countercyclical measures to mitigate the impact of downturns. They can swiftly inject stimulus into the economy, provide social safety nets, and maintain public services without compromising long-term fiscal stability.

Lastly, a prudent fiscal policy with a low debt-to-GDP ratio fosters budgetary discipline and responsible governance. Governments must make tough decisions, prioritize spending, and implement efficient public financial management systems. It promotes transparency, accountability, and good governance practices, which are essential for building trust between the government and its citizens.