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Trends in Debt Movement Around the World

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Abstract

In an ideal situation, governments are just borrowing this money to cover short-term budget deficits or to finance mission critical projects. However, around the globe, countries have taken to the idea of running constant deficits as the normal course of business, and too much accumulation of debt is not healthy for countries or the global economy as a whole. Debt makes it possible for a privileged minority to pocket financial benefits and thereby increase their wealth continuously. Consequently the State does not have the resources necessary to meet the basic needs of the people. Inequalities increase as the rich accumulate wealth and are in a position to exert pressure on decision-makers so as to influence public policy. The rise of the debt and its concentration in a few hands leads to a redistribution of income in favour of the richest members of society, and this, in turn, is both the cause and the consequence of increased exploitation of workers and natural resources. The uneven pace of global economic recovery continues to raise concerns regarding prospects for achieving the Sustainable Development Goals. Many countries have even suffered recent setbacks, as average incomes declined in four major developing regions in 2016. Executive summary in 2017-2019, further setbacks or negligible growth in per capita gross domestic product (GDP) is anticipated in Central, Southern and West Africa, Western Asia, and Latin America and the Caribbean. These regions combined are home to 275 million people living in extreme poverty. This underscores the importance of addressing some of the longer-term structural issues that hold back more rapid progress towards sustainable development and to ensure that the targets of eradicating poverty and creating decent jobs for all are not pushed further from reach. Failure to address these issues may leave a quarter of the population of Africa in extreme poverty by 2030. This paper is a study on the trends in debt movement around the world by using secondary data.

Keywords: *Foreign Capital, FDI, Movement of Debt*

Introduction

Global debt has hit another high, climbing to $247 trillion in the first quarter of 2018. Of that figure, the non-financial sector accounted for $186 trillion. The debt-to-gross domestic product (GDP) ratio has exceeded 318 percent, marking its first quarterly rise in two years, the report by the Institute of International Finance (IIF) said. This is amid record levels of corporate and household debt in many mature markets. The unprecedented debt load is one of several investor concerns, in addition to worries about the Federal Reserve's monetary policy

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tightening and the impacts of a trade war. In 2017, global economic growth is estimated to have reached 3.0 per cent, a significant acceleration compared to growth of just 2.4 per cent in 2016, and the highest rate of global growth recorded since 2011. Labour market indicators continue to improve in a broad spectrum of countries, and roughly two-thirds of countries worldwide experienced stronger growth in 2017 than in the previous year. At the global level, growth is expected to remain steady at 3.0 per cent in 2018 and 2019. The recent acceleration in world gross product growth stems predominantly from firmer growth in several developed economies, although East and South Asia remain the world's most dynamic regions. Cyclical improvements in Argentina, Brazil, Nigeria and the Russian Federation, as these economies emerge from recession, also explain roughly a third of the rise in the rate of global growth between 2016 and 2017. But recent economic gains remain unevenly distributed across countries and regions, and many parts of the world have yet to regain a healthy rate of growth. Economic prospects for many commodity exporters remain challenging, underscoring the vulnerability to boom and bust cycles in countries that are overly reliant on a small number of natural resources. Moreover, the longer-term potential of the global economy carries a scar from the extended period of weak investment and low productivity growth that followed the global financial crisis.

Literature Review

Estimates by Boyce and Ndikumana (2001) for the period 1970-1996 reveal that this group of countries is a "net creditor" to the rest of the world in the sense that accumulated capital flight exceeds the stock of external debt. This poses the question of why countries borrow heavily at the same time that capital is fleeing abroad.

Desai(2008) The author states that the cash repatriation policies or investment criteria are to be applied universally. Strategic objectives demand flexibility in investment analysis. The author finds that the smart companies formulate policies centrally with an understanding that local idiosyncrasies and strategic imperatives may require exceptions. The author states that the multinational corporations have their own internal capital market. With this it is stated that the finance function should graduate to a more strategic level.

Alesina and Tabellini (1989) add political economy considerations to this explanation, suggesting that the incumbent government is happy to accumulate foreign debt since it does not internalize the burden that this will place on future (possibly rival) regimes and on future generations.

Harm Zebregs(1999) The working paper talks about the dependence of long term international capital movement on international distribution of technology. The movement is investigated in context of various technological specifications. The author concludes that the theoretical specifications of technology are crucial to the prediction of size and movement of international capital movements.

Ndikumana and Boyce (1998) offer evidence that this was a major contributor to capital flight in the Congo (formerly known as Zaïre) under the Mobutu regime. Similarly, Boyce (1992, 1993) reviews evidence suggesting that this type of debt-fueled capital flight was widespread during the rule of Ferdinand Marcos in the Philippines.

Steve Culip(2012) The author states that the political risk has different characteristics that

other risks but it can-and has to be managed. The management provides companies to enter new markets and provide potential for competitive advantage. The priority of the risks is to be determined and the methods to manage the potential risk. The author states that the companies have multiple options for addressing identified risks.

Yomodiga(2006) The author studies the gains and loss of the owners of capital and workers due to movement of capital as compared to free trade baseline. The author finds that the structure of commodity demand plays an important role in determining the distributional effect of the international capital movement.

Objective of the Study

- To study on the trends in the debt movement around the world

Research Methodology

A secondary data is predominantly used for this research.

Foreign Direct Investment (FDI)

The developing economies like India have various import requirements which cannot be substituted, like Crude Oil, defence equipment, food, etc. for which they are highly dependent upon imports. These economies have a low share in international trade. The dependence of these economies on international trade is beyond doubt, compelling them to look at ways and means to improve their share in international trade. FDI is one of the ways through which there is inflow of foreign exchange and subsequent increase in the international trade.

Foreign Direct Investment (FDI) is been strongly recommended and reforms in this direction have been persuaded by international bodies like OECD, IMF and IBRD upon developing economies, with an objective to increase the international trade of these economies. FDI is one of the most effective ways to have entry into international markets. There are a large number of arguments for FDI, especially in case of developing economies, like it helps in bringing about competition, new technology, new opportunities, new strategies, new management styles etc. There are also arguments against it, like it does not necessarily bring about new technology, it may be a case that desired or priority sectors of the economy do not get any interested FDI investor. All said and done the international trade is increased after globalization started and the trade is spreading to all parts of the globe.

Figure:1 Share of Global Debt as a Percentage and Debt-to-GDP

Rank	Countries	Debt ($B)	% of Global Debt	Debt-to-GDP
#1	United States	$19,947	31.8%	107.1%
#2	Japan	$11,813	18.8%	239.3%
#3	China	$4,976	7.9%	44.3%
#4	Italy	$2,454	3.9%	132.6%
#5	France	$2,375	3.8%	96.3%

Source : Secondary data(https://www.weforum.org)

While the United States total public debt is indeed the largest in the world, a broader context shows that other countries face even more dire debt situations. One way to put debt in perspective is to compare it to gross domestic product, or GDP. The debt-to-GDP ratio is one primary indicator of a country's economic health; a lower ratio is generally seen as more favorable, as it shows that a country is producing enough to eventually be able to repay its debts. According to figures from the International Monetary Fund, Japan has the largest debt-to-GDP ratio in the world, with government debt more than twice the size of its GDP. Also notable are Greece and Iceland, which have both suffered major recent financial crises and both have government debts that exceed their annual GDPs. The U.S. ratio of 92.7 percent is nearly 20 percentage points away from inclusion in the top 10 countries with the worst debt-to-GDP ratios, listed below:

Progress Towards Sustainable Development

Transition towards sustainable energy is advancing at a gradual pace. Renewables account for more than half of all recently installed power capacity, but still provide only about 11 per cent of global power generation. China remains the world's biggest investor in renewables, and renewable investment in 2017 will be supported by massive wind projects in Australia, China, Germany, Mexico, the United Kingdom and the United States. At a time when many countries, notably in Africa, continue to suffer from severe shortages of energy x World Economic Situation and Prospects 2018 supply, there is enormous potential to lay the basis of environmentally sustainable growth in the future through smart policies and investments today.

Prospects for the World Economy in 2018-2019

The past decade has been characterized by fragile growth, high investor uncertainty and periodic spikes in global financial market volatility. As crisis-related fragilities and the adverse effects of other recent shocks gradually subside, the world economy has strengthened. Towards the end of 2016, global economic activity began to see a modest pickup, which extended into 2017. World industrial production has accelerated, in tandem with a recovery in global trade that has been predominantly driven by stronger demand in East Asia. Confidence and economic sentiment indicators have also generally strengthened, especially in developed economies. Investment conditions have improved, amid stable financial markets, strong credit growth, and a more solid macroeconomic outlook. In 2017, global economic growth is estimated to have reached 3.0 per cent when calculated at market exchange rates, or 3.6 per cent when adjusted for purchasing power parities1 - the highest growth rate since 2011 (figure I.1). Currently, all major developed economies are experiencing a synchronized upturn in growth. Compared to the previous year, growth strengthened in almost two thirds of countries worldwide in 2017. At the global level, world gross product (WGP) is forecast to expand at a steady pace of 3.0 per cent in 2018 and 2019. Developing economies remain the main drivers of global growth. In 2017, East and South Asia accounted for nearly half of global growth, as both regions continue to expand at a rapid pace. The Chinese economy alone contributed about one-third of global growth during the year. However, stronger economic activity has not been shared evenly across countries and regions, with many parts of the world yet to regain a healthy rate of growth. Moreover, the longer-term potential of the global economy continues to bear a scar from the extended period of weak investment and low productivity

growth that followed the global financial crisis. Widespread weakness in wage growth, high levels of debt and elevated levels of policy uncertainty continue to restrain a firmer and more broad-based rebound in aggregate demand. At the same time, a number of short-term risks, as well as a buildup of longer-term financial vulnerabilities, could derail the recent upturn in global economic growth. The recent acceleration in WGP growth, from a post-crisis low of 2.4 per cent in 2016, stems predominantly from firmer growth in several developed economies. Cyclical improvements in Argentina, Brazil, Nigeria and the Russian Federation, as these economies emerge from recession, also explain roughly a third of the rise in the rate of global growth in 2017.

The composition of global demand has shifted more towards investment over the last year. Gross fixed capital formation accounted for roughly 60 per cent of the acceleration in global economic activity in 2017. This improvement, however, is relative to a very low starting point, following two years of exceptionally weak investment growth, and a prolonged period of lacklustre global investment activity. Business investment contracted in a number of large economies in 2016, including Argentina, Australia, Brazil, Canada.

Table I.1 Growth of World Output, 2015-2019

						Change from WESP 2017	
Annual percentage change	**2015**	**2016**	**2017[a]**	**2018[b]**	**2019[b]**	**2017**	**2018**
World	2.7	2.4	3.0	3.0	3.0	0.3	0.1
Developed economies	2.2	1.6	2.2	2.0	1.9	0.5	0.2
United States of America	2 9	1.5	2 2	2 1	2 1	0.3	0.1
Japan	1 1	1.0	1.7	1 2	1 0	0.8	0.3
European Union	2.2	1.9	2 2	2 1	1 9	0.4	0.3
EU-15	2.1	1.8	2.0	1 9	1.8	0.4	0.2
EU-13	3 8	2.9	4.2	3.6	3 5	1.0	0.3
Euro area	2.0	1.6	2.1	2.0	1.9	0.4	0.3
Other developed countries	1.6	1.8	2.5	2 4	2.2	0.5	0.2
Economies in transition	-2.2	0.4	2.2	2.3	2.4	0.8	0.3
South-Eastern Europe	2 0	2.9	2 5	3.2	3 3	-0.6	-0.1
Commonwealth of Independent States and Georgia	-2 4	0.3	2.2	2 3	2 4	0.8	0.3
Russian Federation	-2 8	-0.2	1.8	1.9	1 9	0.8	0.4
Developing economies	3.9	3.8	4.3	4.6	4.7	-0.1	-0.1
Africa	3.1	1.7	3.0	3.5	3 7	-0.2	-0.3
North Africa	3.2	2.8	4 8	4 1	4 1	1.3	0.5
East Africa	6 7	5.4	5.3	5.8	6.2	-0.7	-0.5
Central Africa	1 7	0.6	0.7	2.1	2 5	-2.7	-2.1
West Africa	3 2	0.3	2.4	3.3	3 4	-0.7	-0.8
Southern Africa	1.9	0.6	1 2	2 3	2.5	-0.6	-0.3
East and South Asia	5.8	6.0	6 0	5 8	5.9	0.1	-0.1
East Asia	5 7	5.6	5 9	5 7	5 6	0.3	0.1
China	6.9	6.7	6.8	6 5	6.3	0.3	0.0
South Asia	6 2	7.7	6.3	6.5	7.0	-0.6	-0.4
India[c]	7 6	7.1	6.7	7.2	7 4	-1.0	-0.4
Western Asia	3 6	3.0	1 9	2 3	2 7	-0.6	-0.7
Latin America and the Caribbean	-0 6	-1.3	1.0	2.0	2 5	-0.3	-0.1
South America	-1 9	-2.7	0 4	1.8	2 4	-0.5	-0.2
Brazil	-3 8	-3.6	0 7	2 0	2.5	0.1	0.4
Mexico and Central America	3.1	2.5	2.5	2.6	2 6	0.1	0.3
Caribbean	0.2	-0.8	0.2	1 8	2.0	-1.2	0.0
Least developed countries	4.2	4.3	4.8	5.4	5.5	-0.3	-0.2
Memorandum items							
World trade[1]	2 9	2 2	3.7	3.5	3 6	1.0	0.2
World output growth with PPP weights[e]	3 3	3 1	3.6	3 7	3.7	0.1	0.0

Source: UN/DESA.

Prospects for Least Developed Countries

Growth in the least developed countries (LDCs)a is expected to rise modestly from an estimated 4.8 per cent in 2017 to 5.4 per cent and 5.5 per cent in 2018 and 2019, respectively. The acceleration is due mostly to more favourable external economic conditions and, in particular, firming commodity prices, which support trade, financial flows and investment in natural resource projects and infrastructure. GDP per capita grew by an estimated 2.5 per cent in 2017, which solidifies the recovery from the lows of 2015- 2016, but remains subdued compared to the momentum reached before 2007. Prospects for the group are positive with per capita growth expected to accelerate to 3.0 per cent in 2018 and 3.2 per cent in 2019. However, given the depth and extent of poverty and inequality among LDCs, tangible improvements in quality of life will remain limited. Structural challenges continue to hamper significant progress in economic and social development. This includes a lack of infrastructure and public services, political instability and institutional deficiencies and vulnerability to shocks from commodity revenue and extreme weather events. Moreover, despite facing better prospects, the LDCs as a group will not accomplish SDG target 8.1 this year, which calls for "at least 7 per cent gross domestic product growth per annum" in the LDCs. Nonetheless, some countries in the group will achieve average growth above or close to 7 per cent in 2018-2019, and the majority will grow at a 5 per cent or higher rate by the end of 2019 (see figure I.1.1). Bangladesh is projected to be among the fastest growing LDCs in 2018 with expected real GDP growth of 7.1 per cent, supported by vigorous domestic demand, especially private investments. Bhutan is also expected to grow by 7.1 per cent in 2018, benefitting from infrastructure investments. The fastest growing East Asian LDCs include Cambodia, the Lao People's Democratic Republic and Myanmar with growth rates forecast to be slightly above 7 per cent in 2018-2019, mainly as a result of export growth and infrastructure projects.

Table: 1 India's Key External Debt Indicators (Per cent)

Year	*2012-13*	*2013-14*	*2014-15*	*2015-16R*	*2016-17 P*
External Debt (US$ billions)	409.4	446.2	474.7	485.0	471.9
Growth in External Debt (per cent)	13.5	9.0	6.4	2.2	-(2.7)
Total External Debt to GDP	22.4	23.9	23.9	23.5	20.2
Debt Service Ratio	5.9	5.9	7.6	8.8	8.3
Concessional Debt to Total External Debt	11.1	10.4	8.8	9.0	9.3
Foreign Exchange Reserves to Total External Debt	71.3	68.2	72.0	74.3	78.4
Short term External Debt to Foreign Exchange Reserves	33.1	30.1	25.0	23.1	23.8
Short term External Debt to Total Debt	23.6	20.5	18.0	17.2	18.6
Short term debt (Residual Maturity) to total debt	42.1	39.7	38.5	42.7	41.5
Short term debt (Residual Maturity) to foreign exchange reserves	59.0	58.2	53.5	57.4	52.9

Source: RBI Notes: R: Revised; P: Provisional

India continues to be among the less vulnerable nations in terms of its key debt indicators which compare well with other indebted developing countries. According to the World Bank's "International Debt Statistics, 2017" which gives the debt data of developing countries for 2015, India's position was third in terms of absolute external debt stock, after China and Brazil in 2015. However, the share of short term external debt to total external debt is only 18.4 per cent and 18.6 per cent in 2016 Q4 (end- December) and 2017 Q1 (end-March), respectively compared to the top debtor country, China's 56.4 per cent and 59.0 per cent for these periods. The ratio of India's external debt stock to gross national income (GNI) at 23.4 per cent was the fifth lowest and in terms of the cover provided by foreign exchange reserves to external debt, India's position was sixth highest at 69.7 per cent in 2015. Among BRICS countries, in terms of indebtedness, India is at fourth position after China, Brazil and Russian Federation. Internationally the top 20 debtor countries in the world are the developed countries with the US at the top. India is not among the top 20 debtor countries in the world and is at 24th position.

Conclusion

Sovereign debt problems in the 21st century have become somewhat more complex. The reasons are that the same constraints of low revenue generation which forces the government to borrow more makes a mountain out of a public debt, especially in a world with anemic trade and growth potential. Government debt forces a vexatious situation through a crowding-out effect and the dark clouds of future taxation. When governments become the principal borrower, it most certainly crowds out the other potential borrowers who can then access debt only at a heavy cost. Further, the government has limited choices of repaying debt other than rolling it over or through potential taxation in the future or by a one-off source like the telecom auction, as has happened in India for over four years. Further, there is the factor of higher interest payments as a part of debt servicing. High levels of government debt, therefore, saddle future generations with no offsetting multiplier to the GDP from government spending (as that spending occurred years earlier than when the debt was issued).Once the rise in debt spirals, its effects ripple through the economy. At the receiving end of the crowding-out effect will not only be companies but the latest entrants-the state governments, who have just been allowed larger access to markets, including foreign investors to borrow from. Their interest cost will rise too. This is a new trend where the states now have to incur the cost of larger expenditure for investments in key sectors, including health and education. Using higher taxation to pay off larger debt or scrounging around for fresh one-time sources thus impacts public finance even more. Further, there is the factor of higher interest payments as a part of debt servicing. High levels of government debt consequently saddles future generations with no offsetting multiplier to the GDP from government spending since the spending has occurred years earlier than when the debt was issued.

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