

# The Burden of Debt



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# DEFINITION

- A **debt burden** is a large amount of money that one country or organization owes to another and which they find very difficult to repay.
- In the case of governments, interest charges on the **national debt** are paid for out of **taxation** and other receipts.



# MAIN POINTS

- Caused by the global financial crisis;
- Rises the level of aggregate net government debt in the world;
- Poses risks to fiscal and macroeconomic stability and also imply transfers of wealth across generations;
- Rise of the ratio of world debt to world GDP.
- May ultimately fall on the working-age population (ages 20-64).

# MARKET RISK

- Market Risk is the risk originating in instruments and assets traded in well-defined markets
- Market risks can result from macro- and micro- sources



- Systematic market risk results from overall movement of prices and policies in the economy
- The unsystematic market risks arises when the price of the specific asset or instrument changes due to events linked to the instrument or asset

# ARGENTINA'S CASE

- 1970s: borrowed enormous amounts of money at a low interest rate
- 1980s: interest rate raised by the US
- 1997: global crisis affects Argentina's debt
- 2001: country's default
- Today: \$20 billion to pay off



# MAKING GLOBALIZATION WORK: WHAT TO DO ABOUT DEVELOPING COUNTRY DEBT

## Debt Relief Categories:

- "Normal" very poor countries
- Countries w/ corrupted oppressive governments
- Emerging
- Middle-income countries that have been lent too much



# DEBT RELIEF FOR THE POOREST

- **1996** - the international community recognized the need for debt relief for highly indebted poor countries.

For the poorest countries loans at low interest rates are often provided by:

- The World Bank
- The IMF
- Advanced industrial countries

## HIPC



# Debt relief for the poorest

July 2005 28 countries have been granted **\$56 billion** of debt relief

Nineteen of them - **\$37 billion**

Others - full debt relief requires the countries to fulfill certain conditions

- But there are still many countries waiting for debt relief...

