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CBiBank Research Department: Global Debt Sees Consecutive Two-Year Decline, Yet Uncertainties Loom: IMF Report

UNITED STATES, November 22, 2023 /EINPresswire.com/ -- The International Monetary Fund (IMF) has released a report （https://www.imf.org/en/Blogs/Articles/2023/09/13/global-debt-is-returning-to-its-rising-trend）highlighting a two-year continuous decrease in global debt, while persistent concerns abound due to the sustained high levels of debt, particularly the soaring debt during the pandemic. The total global debt currently stands at $235 trillion, amounting to 238% of the global GDP. Although this marks a reduction from 258% in 2020, it still exceeds the 229% figure in 2019.

Over the past few years, there has been only an 8-percentage point reduction in public debt when compared to GDP. This suggests that only half of the surge stemming from pandemic-induced expenditure has been mitigated.

China's extensive borrowing, outpacing its economic expansion, has significantly influenced this situation. Notably, China’s non-financial corporate debt, standing at 28% of its GDP, leads the global chart. The IMF emphasizes, "Persistent fiscal deficits have kept public debt levels high, as numerous governments amplified their spending to accelerate growth and counter the spikes in food and energy prices, even as pandemic-specific fiscal aids were terminated."

The IMF stresses the urgency for governments to implement measures to reduce debt vulnerabilities and reverse long-term debt trajectories. They underscore that alleviating debt pressures can pave the way for new investments, thereby fostering economic growth in the upcoming years.

Simultaneously, China's economic growth expectations have been revised downward. Current predictions anticipate a 5.0% growth this year, a decline from the previously estimated 5.5% in July. While retail sales and industrial outputs exceeded expectations in August, the substantial downturn in the property market, which holds about 70% of household wealth, weighs on the economy. Additionally, with the yuan experiencing a 6% decline against the dollar this year, Chinese companies will face tighter scrutiny when conducting large US dollar transactions.

In the US, August witnessed the swiftest increase in consumer prices in 14 months, at 0.6%. Gasoline emerged as the primary driver, leading to a consecutive monthly rise in annual inflation, totaling 3.7%. However, given that core inflation, excluding food and energy, recorded its smallest uptick since September 2021, the Federal Reserve might delay interest rate hikes in the coming week.

Conversely, the UK experienced a sharper contraction in GDP for July than anticipated, marking a 0.5% monthly decline. Abnormal rainfall negatively impacted retailers and the construction sector, while strikes within the healthcare sector further strained the economy. Additional economic indicators point to a decelerating momentum, with rising unemployment and job vacancies falling below the 1 million mark for the first time in two years.

In another development, the European Central Bank (ECB) has set unprecedented interest rate levels, while the European Commission projects a decline in Eurozone growth this year due to lackluster economic performance in the first half.

The ECB raised its prime rate to 4%—its 10th increase in just over a year, aiming to substantially contribute to achieving the 2% inflation target. In contrast, the European Commission reported 5.3% inflation in July, projecting an average of 6.5% for the entire year. It has also revised its inflation forecast for 2024 to 3.2%, up from the previous projection of 3.1%.

Furthermore, the Commission has adjusted its economic growth outlook for the Eurozone in 2023, bringing it down by 0.2 percentage points to 0.8%. The 2024 forecast has also been trimmed by 0.3 points to 1.4%. This reflects the anticipation of ongoing sluggish growth momentum, compounded by the implications of rigorous monetary policy.

The World Economic Forum's Chief Economists Outlook forecasts significant economic volatility in the upcoming year, with geopolitics identified as a potential destabilizing factor. Domestic politics, especially the forthcoming US elections, are seen as another probable catalyst for economic turbulence. Consequently, 61% of these economists forecast a weakened global economic state in the next year.

However, a silver lining emerges in the form of inflation predictions. A significant 86% of the surveyed economists anticipate a decline in global inflation within the next year. This outlook varies by region, with Europe expected to grapple with heightened inflation, while the US might experience moderate to low inflation. On the other hand, due to deflationary tendencies, China is forecasted to witness minimal inflation, with 81% of economists predicting a low or extremely low inflation rate.

In terms of growth, Asia emerges as a beacon of optimism. An overwhelming 92% of survey participants foresee moderate to robust growth in South Asia.

While projections indicate a potential slowdown in the global economy, the application of appropriate measures could pave the way for promising economic growth in the coming years.

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