

Macro Roundup Article

Headline: [DM Debt - How to Move Mountains](#)

Article Link: <https://www.gspublishing.com/content/research/en/reports/2023/09/11/69271985-9bd9-4150-8f3e-0e90cd9ad21b.html>

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Tweet: A @GoldmanSachs analysis argues that high interest rates are likely to continue given current high inflation and wider deficits, and notes that “the US and UK are the most obvious candidates for a duration risk premium repricing.”

Summary: Using a debt accounting exercise, we show that periods of sustained debt reduction are typically driven by strong primary balances and above-average growth. Following 1980, inflation has played little role in debt reductions. Current fiscal projections and current market interest rates on average do not point to declines in debt-to-GDP ratios across developed markets. We estimate that market implied $r - g$, the difference between real interest rates and growth rates, is now positive for many countries. Japan provides an example of high debt peaceably coexisting with low interest rates. However, given current high inflation, wider deficits, and rising interest costs, we think it unlikely that we return to the era of structurally low interest rates in the US, UK, or Europe. As a result, we see the risks to term premia skewed higher as fiscal risks simmer. Related: Living with High Public Debt and American Gothic and Is a U.S. Debt Crisis Looming? Is it Even Possible?

Primary Topic: Fiscal Deficits

Topics: Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Op-Ed/Blog Post, Weekly

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