Macroeconomic Objectives

Macroeconomics is concerned with issues, objectives and policies that affect the whole economy.

The four major objectives are:

1. Full employment
2. Price-level stability
3. Economic growth
4. **Sustainable level of debt**

Sustainable Level of Debt

Government debt refers the amount of money that a government owes to lenders outside of the government itself.

This occurs when there is a deficit in the government's budget and they finance the extra spending through borrowings.

Over time, the government's accumulation of deficits minus surplus is referred to as **government debt**.

What do you think…
is the meaning of '**sustainable debt**'?

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Sustainable debt is the level of debt where the borrowing government has enough revenues to meet its debt obligations.
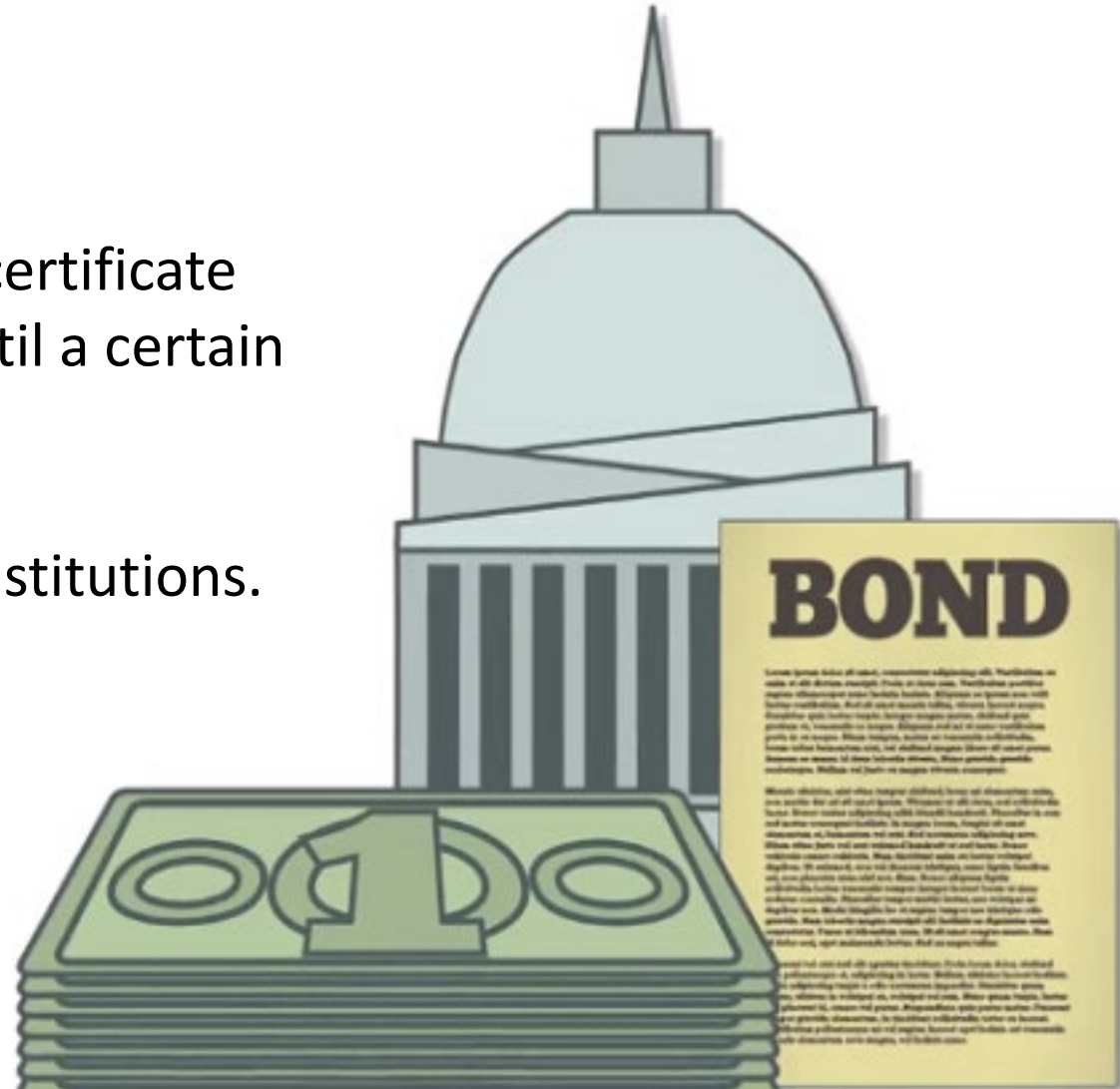
Sustainable Level of Debt

How governments borrow

Governments borrow by issuing **bonds** which is a certificate that promises to pay interest at various intervals until a certain date when the money is repaid to the bond holder.
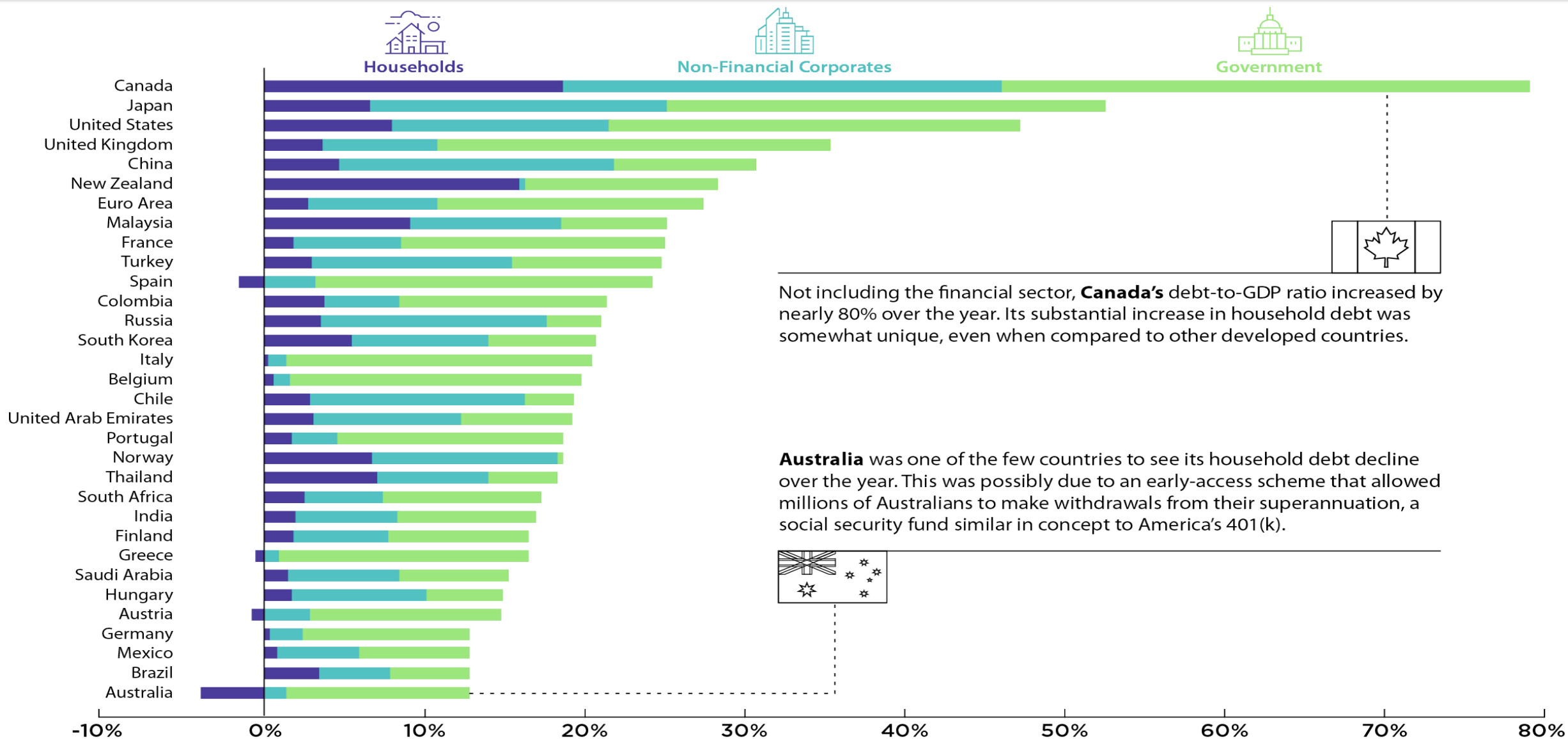
Countries may also borrow directly from financial institutions.

Borrowing can be **internal** or **external sources**.

Households — **Non-Financial Corporates** — **Government**

Not including the financial sector, **Canada's** debt-to-GDP ratio increased by nearly 80% over the year. Its substantial increase in household debt was somewhat unique, even when compared to other developed countries.

Australia was one of the few countries to see its household debt decline over the year. This was possibly due to an early-access scheme that allowed millions of Australians to make withdrawals from their superannuation, a social security fund similar in concept to America's 401(k).

Source: IIF, Deutsche Bank

Sustainable Level of Debt

Costs of high levels of debt

- Debt servicing costs

- Impacts on future taxation and government spending

- Poor credit ratings

- Increased income inequality

- Lower private investment

- Possibility of a debt trap

- Lower economic growth

Potential Conflicts

- Low unemployment and low inflation

- High economic growth and low inflation

- High economic growth and environmental sustainability

- High economic growth and equity in income distribution