

# UniCredit Research Teach-in

Why the big increases in public debt are not a major concern

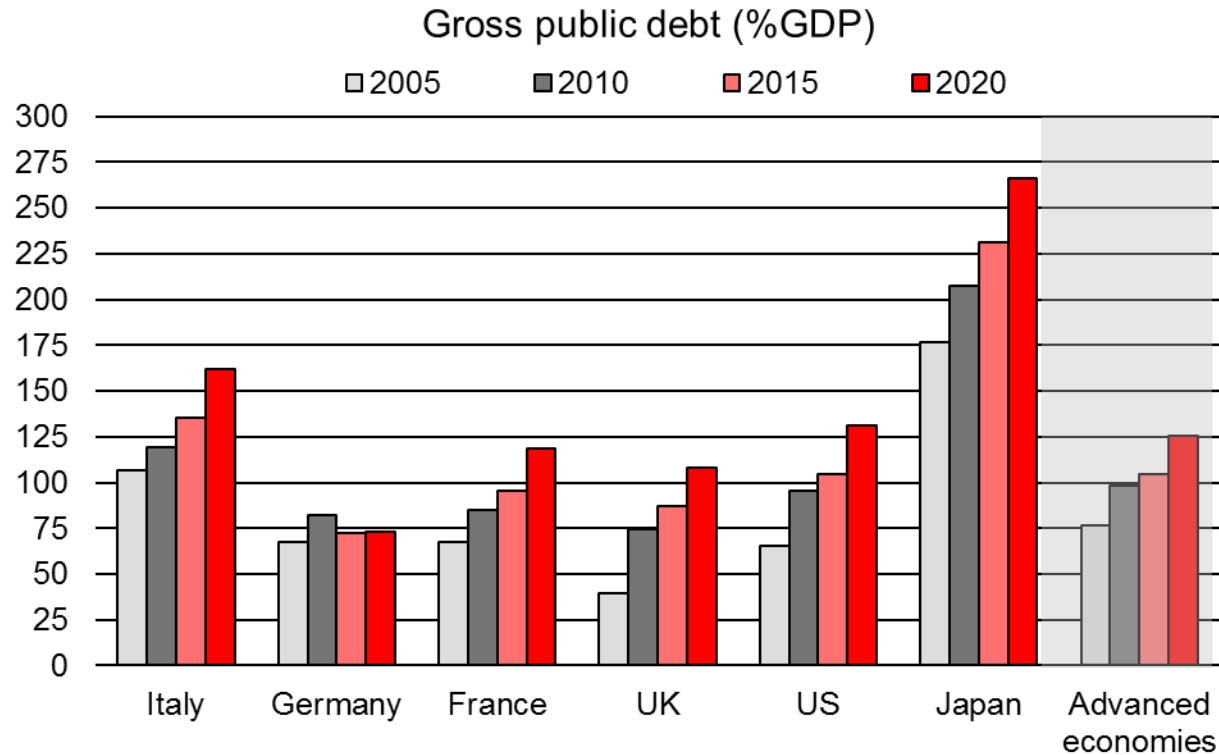
**Edoardo Campanella**, Economist (UniCredit Bank, Milan)

Milan, 29 January 2021

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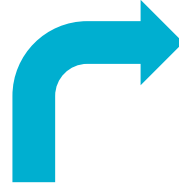
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# Public debt has been on the rise for two decades, with a sharp increase during the pandemic, and now stands at 125% of GDP in advanced economies



## We look at the wrong metric, mixing stocks and flows

**STOCK:** Snapshot of accumulated past deficits

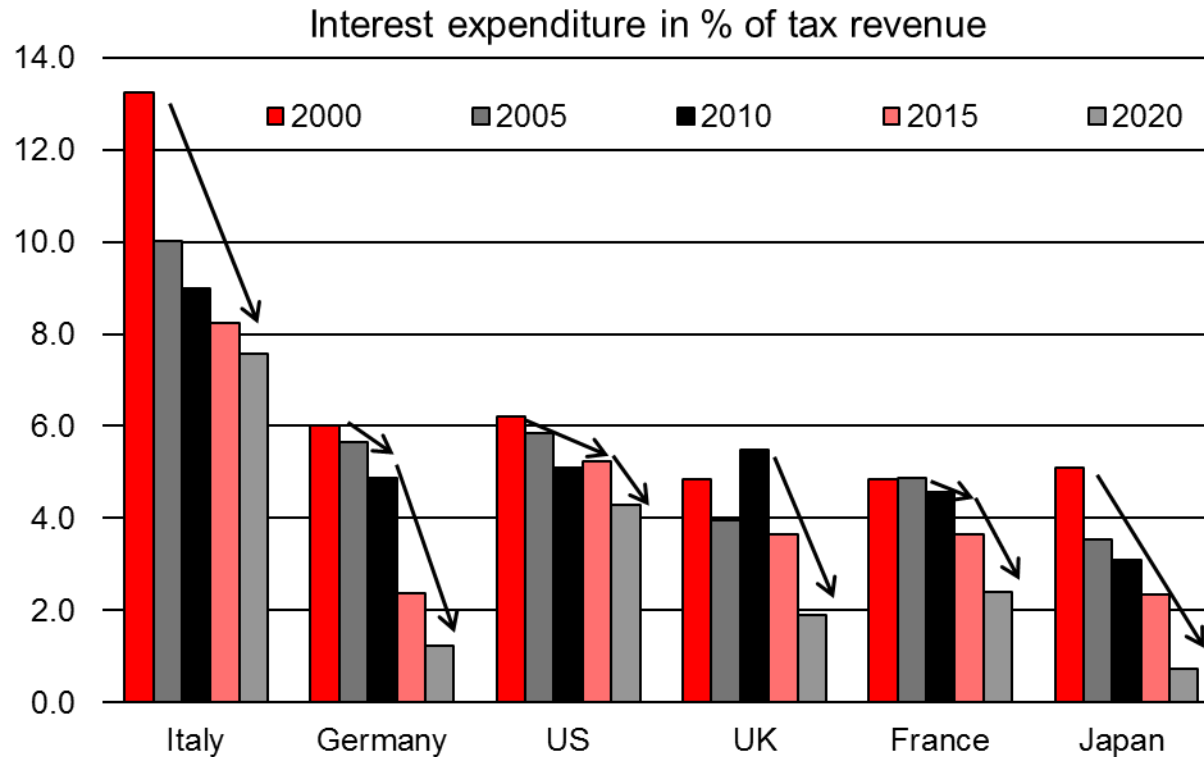


$$\frac{Debt}{GDP}$$

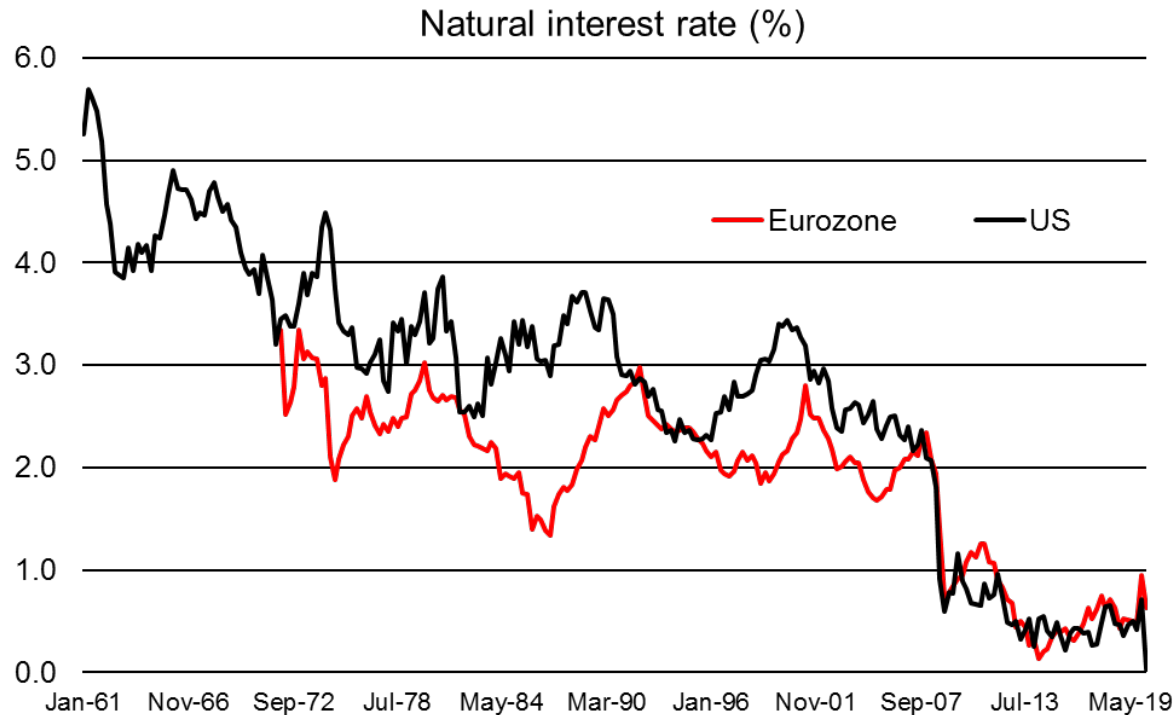
**FLOW:** Income produced at a specific moment in time



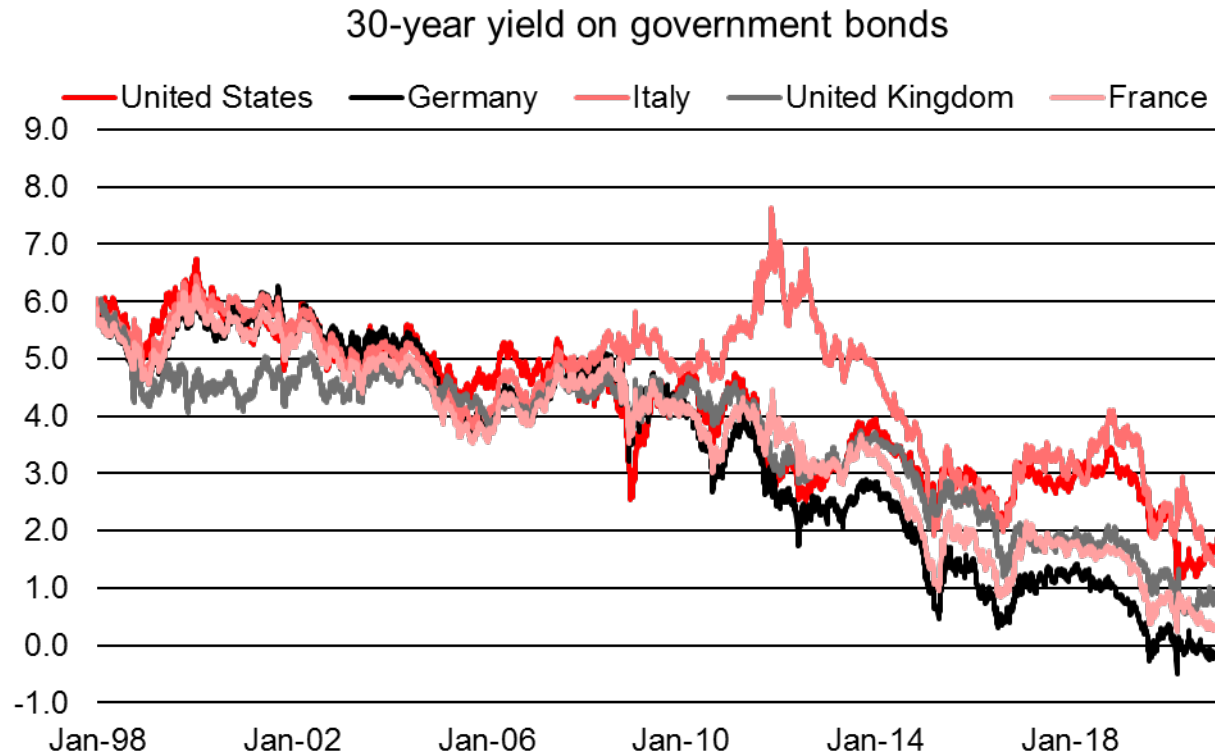
# Governments can roll over their debt forever. What matters for its sustainability is the interest spending it generates each year (i.e. its flow) – which has declined consistently since 2000



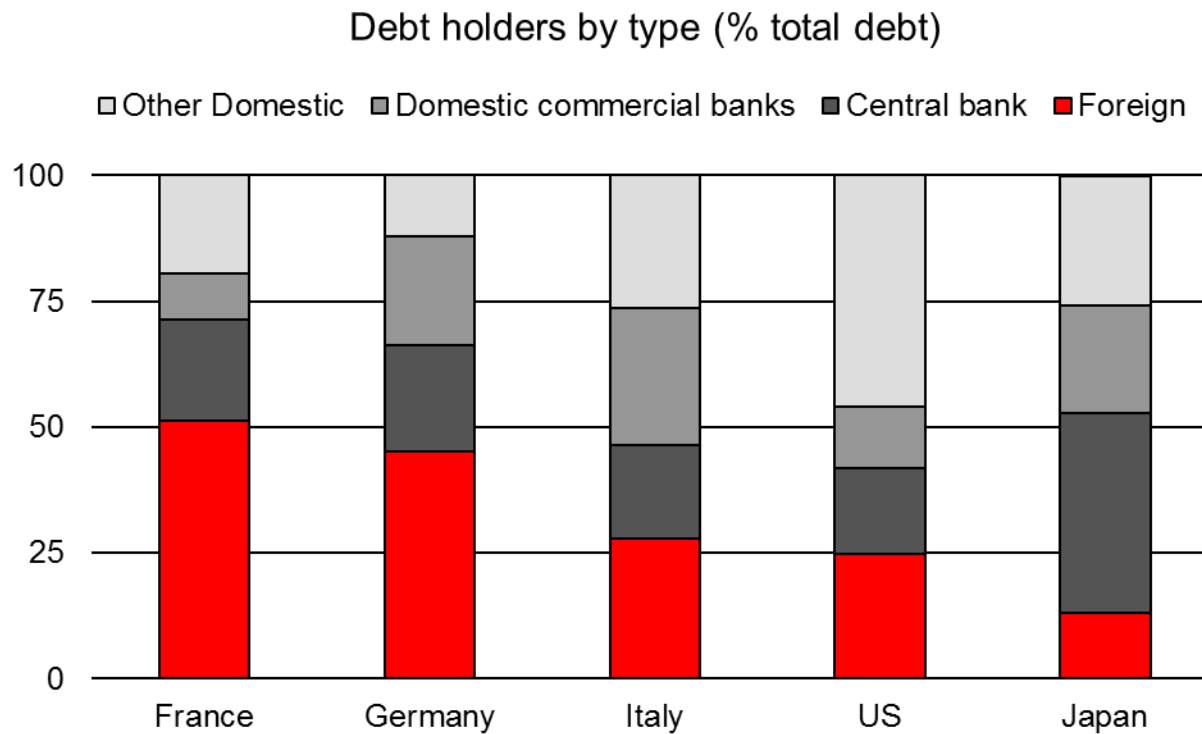
# Structural forces, and not the intervention of central banks, have weighed on the equilibrium interest rate, affecting the propensity to save and invest



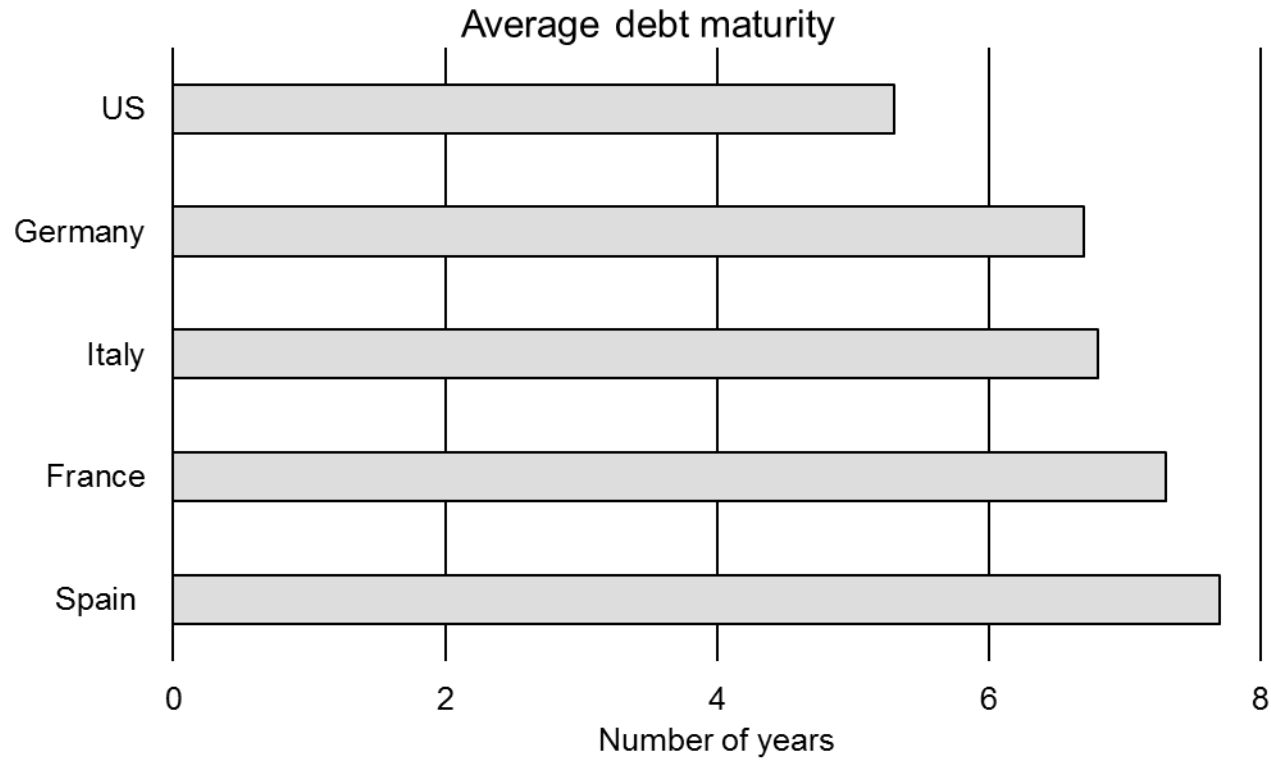
**And interest rates are expected to remain depressed for the foreseeable future, creating ideal borrowing conditions at a time when public investment is needed to facilitate the digital and green transitions**



**Debt held domestically represents a transfer within the economy, while debt held by the central bank implies roughly zero issuance cost. Only interest paid to foreign investors is a tax on the economy**



# High debt maturity reduces rollover risk





# Conclusions

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## 1. Time to move beyond the debt-to-GDP ratio

- The interest-to-revenue ratio is a more reliable metric to assess debt sustainability.

## 2. "Good debt" will boost GDP growth and intergenerational fairness

- Governments should borrow to fund new investments that will raise the potential of the economy and benefit future generations



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