Government Debt

Economics

What the debt burden means, and what actually makes it sustainable.

The debt ratio falls when nominal growth exceeds the effective interest rate on the debt.

Debt ratio falls when $g > r$, given a primary balance

$g > r$	Ratio falls even with a deficit
$r > g$	Needs a primary surplus
Own-currency debt	Different risk profile

THE COMMON MISTAKE

× Treating a government like a household

✓ It has an indefinite horizon and issues the currency

A household must repay within a lifetime. A government rolls debt over indefinitely, so the ratio matters more than the level.

Educational reference. Debt in a foreign currency carries genuinely different risks from debt in one's own.