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A Look at Global Debt Markets and the Implications of High Interest Rates

Richard Harris | May 2025

Global debt has been a hot topic of discussion for many years and has become even more so recently as the public keeps a watchful eye on governments' spending like there's no tomorrow in an effort to maintain the stability of their respective economies. We have seen record debt accumulation coupled with rising interest rates, and many are wondering how governments can service these high-interest burdens in the current environment.

The 10-year U.S. Treasury yield is an important benchmark that affects both the cost of servicing government debt and private sector borrowing rates. When the 10-year yield rises, the government pays more to service its debt, increasing national interest costs. For companies, a higher yield means a higher cost of capital, as it forms the basis for corporate borrowing rates and forces companies to seek higher returns on their investments. With the current yield on the 10-year US interest rate at around 4.5%, many are wondering what negative impact it could have on economies if this rate remains elevated.

Global debt has reached dizzying proportions: Total private and public sector debt reached a record \$318 trillion in 2024 and the ratio of global debt to GDP now stands at 320%. When looking at debt, it is important to understand the different types of debt in order to recognise the implications for the future.

1. **Global Debt** - The total amount of all debt worldwide, including governments, corporations and individuals, which amounted to 318 trillion US dollars in 2024.

3. **Financial Sector Debt** – Banks and financial institutions that owe money to depositors, other banks or investors through instruments such as interbank loans
4. **Household Debt** - The total amount owed by individuals and families to lenders, including mortgages, credit cards, personal loans and other forms of consumer credit.

Debt Category	Amount (USD)		
Total Global Debt	\$318 trillion	% of Total	Notes
Public Sector Debt	\$95.3 trillion	30%	Government bonds
Household Debt	\$60.1 trillion	19%	Mortgages, loans
Non-Financial Corporate Debt	\$91.3 trillion	29%	Business borrowing
Financial Sector Debt	\$71.4 trillion	23%	Bank liabilities

The risk characteristics of these debt categories are very different. In the past, however, corporate debt has been more likely to cause financial instability than household debt, especially in emerging markets, where recessions caused by corporate debt are more damaging to economic performance. However, recent concerns have also centred on public sector (government) debt, as many question the risk involved, especially if the economy slows and GDP falls as a result.

The Recent Bond Market Rout: Why Fixed Income Has Struggled

Bonds are priced differently than other asset classes, and the inverse relationship between interest rates and bond prices sometimes confuses even the most knowledgeable investors.

Bond prices and interest rates move in opposite directions because when interest rates rise, new bonds offer higher yields, making existing bonds with lower fixed rates less attractive and causing their prices to fall. Conversely, existing bonds with higher interest rates become more valuable when interest rates fall, causing their prices to rise — this correlation is fundamental to the way bond markets work and explains much of the price movements during periods of fluctuating interest rates. If you're still scratching your head, consider the relationship between the value of property and rising and falling interest rates.

Bond markets have been hit hard recently as rising interest rates and persistent inflation push up yields and drive down prices globally. In December 2024, government bond yields jumped in the US, UK, Germany and especially in emerging markets such as Brazil and Mexico. This recent turbulence is due to several factors: Inflation is reducing the real value of bond payments, central banks are tightening monetary policy and investors are increasingly concerned about growing sovereign debt and fiscal positions. These fears have led to higher risk premiums and weaker demand at bond auctions, as evidenced by the recent failed sale of 20-year US Treasuries, where investors demanded higher yields. With talk of further tax cuts and US debt already totalling \$36 trillion, investors are demanding better yields to offset the rising risks, making it more expensive for governments to borrow.

The United States: The Indebted Superpower Under Pressure

At USD 36.56 trillion (March 2025), the USA has the world's highest national debt, which is increasing by USD 1 trillion every 100 days and is expected to climb from 99% to 116% of GDP by 2034 (which could be a modest assumption by many standards). Interest costs amounted to nearly \$1 trillion in 2024, accounting for 14% of federal spending — a burden that will worsen as higher interest rates drive up refinancing costs. By way of illustration, between \$7bn and \$9bn of US debt will need to be refinanced in 2025 at current high interest rates, with annual interest payments on today's US government debt expected to exceed \$1.2tn.

United Kingdom: Fiscal Strains and Market Volatility

The United Kingdom is facing serious financial challenges: government debt reached £151.9bn in the 2024/25 financial year — much higher than the expected £137.3bn. This is the third highest amount the government has ever borrowed in cash, showing just how difficult the country's finances are. The budget deficit has risen to 5.3% of UK economic output, up from the predicted 4.8%, and the national debt has reached worrying levels. What's more, the interest costs on this debt reached a record £4.3bn in March alone. These figures illustrate how rising interest rates are making it even harder for the UK to manage its debt and how little room it has to manoeuvre to tackle future economic problems.

Europe: Slight Improvement Amid Structural Challenges

Public debt in the Eurozone remained relatively stable in 2024, rising only slightly to 87.4% of GDP from 87.3% the previous year. However, this general stability masks significant differences between the member states: Greece continues to have the highest debt ratio at 153.6% of GDP, followed by Italy at 135.3% and France at 113.0%. On a positive note, the deficit ratio in the eurozone has improved, falling from 3.5% in 2023 to 3.1% at the end of 2024. Nevertheless, some countries still have high deficits: Romania at 9.3%, Poland at 6.6% and France at 5.8%. These differences make it clear that maintaining fiscal unity in the eurozone remains a challenge, as some countries continue to struggle with high debt and deficits despite the overall stable figures in the region.

Japan – Pioneer of Quantitative Easing (QE)

Japan holds the world record for the highest national debt in relation to the size of its economy: by the end of 2024, its debt will reach a staggering 1.32 quadrillion yen (8.67 trillion US dollars). This increase is mainly due to additional government spending to stimulate the economy. Despite this enormous debt, Japan is managing better than most other countries as almost all of its public debt is owned by its own citizens and institutions, making the country less dependent on the fluctuations of foreign investors. However, rising interest rates to combat inflation make it more expensive for Japan to repay its debts.

Added to this is the “yen carry trade”, in which investors have long been borrowing yen at

forcing investors to repay their yen loans quickly. This sudden change caused turmoil in global markets, triggering sell-offs in stocks and bonds and creating additional volatility in countries like India that rely on foreign investment. Japan's fiscal policy is now having repercussions around the world, showing how its own debt and monetary policies can shake global markets.

How things are stacking up in South Africa

It is probably no surprise that South Africa is facing increasing pressure on public and private debt. government debt is expected to peak at 77.4% of GDP in 2025/26, although broader estimates, including government guarantees, put this figure as high as 129%. The government's ability to repay its debt is being challenged by rapidly rising interest costs, which now consume 22% of tax revenue and constrain spending on essential services. Fiscal sustainability is also jeopardised by sluggish economic growth, ongoing bailouts of state-owned enterprises and a lack of contingency reserves. If these problems persist, South Africa risks higher borrowing costs and a possible credit rating downgrade, making debt repayment increasingly difficult.

Conclusion

Over the past decade, global debt has risen to unprecedented levels, fuelled by a series of economic crises and long-term changes in the global economy. The 2008-2009 financial crisis triggered a wave of high government spending and low interest rates, and the COVID-19 pandemic pushed debt even higher as countries launched massive aid programmes. This increase is not only due to crisis spending, but also to the ageing population, rising healthcare costs and the need for new infrastructure. Much of this debt growth has been concentrated in large economies such as China, whose debt levels now replicate those of the US. High interest rates are exacerbating the challenge of this high level of debt, making it increasingly expensive for governments and households to fulfil their obligations. Major economies such as the US, UK, Japan and European countries are all under particular fiscal pressure, but all are struggling with the same fundamental problem: how to maintain economic growth and stability in a world of debt. The recent turmoil in the bond markets and the rising cost of borrowing emphasise the delicate balance that policy makers must strike. The way forward requires careful management, fiscal discipline and a watchful eye on evolving risks in developed and emerging markets.

Market Update

Market and Economic Update – May 2025

Global equity markets continued their recovery from April lows, supported by positive trade developments between the US, UK and China. Corporate earnings in the US exceeded expectations with 96% of S&P 500 companies reporting results — 78% surprised with positive earnings and 63% beat revenue estimates. This optimism led to a strong performance by equities: the Dow Jones rose by 3.4%, the Russell 2000 by 4.62%, the S&P 500 by 5.44% and the Nasdaq by 7.95%.

Representatives, fiscal policy concerns arose again in the US. The bill, which extends the Trump-era tax cuts and introduces new tax breaks, could increase the deficit by almost USD 3 trillion over the next ten years. The bond markets reacted sharply: the yield on 10-year bonds rose to over 4.5% and the yield on 30-year bonds briefly exceeded 5% - the highest since 2007. As expected, the US Federal Reserve left interest rates unchanged, but pointed out that the economic outlook is becoming increasingly uncertain despite continued economic growth.

US business activity surprised on the upside in May, with both services and manufacturing sectors exceeding expectations. However, housing data remained mixed and rising costs related to tariffs continued to pose a challenge.

In China, the People's Bank of China introduced a comprehensive stimulus package that included a 50 basis point cut in the reserve requirement ratio, a 10 basis point cut in the reverse repo rate and targeted support for housing, consumption and innovation. These measures and the improved trading sentiment contributed to a 6.57 rise in the Hong Kong stock market this month.

In Japan, bond yields rose to their highest level since 2008 due to a core inflation rate of 3.5 and expectations of monetary policy tightening. While capital spending remained robust, growth in the services sector slowed and manufacturing continued to struggle. Nevertheless, the Nikkei 225 rose by 5.43%, driven by optimism over trade developments.

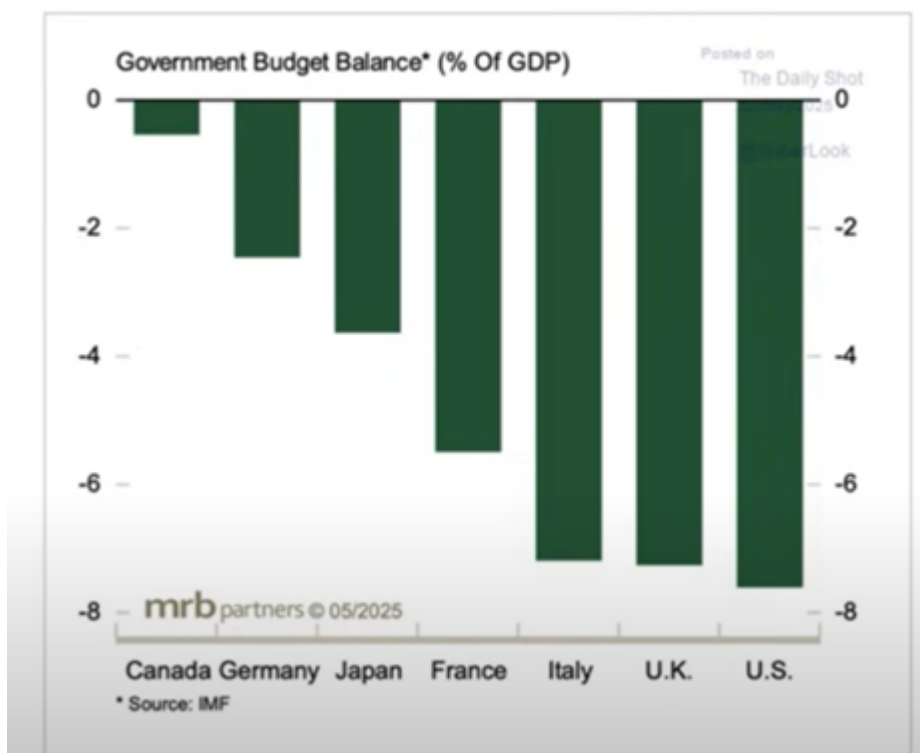
In South Africa, Finance Minister Enoch Godongwana presented a revised budget for 2025/26 in which he postponed the planned VAT increase while reaffirming the government's commitment to fiscal consolidation. The Ministry of Finance announced spending cuts of R68bn and a modest increase in the fuel levy. Growth forecasts were revised downwards to 1.4% and the debt-to-GDP ratio is now expected to be 77.4%. The budget deficit is estimated at 4.8% of GDP. The consumer price index rose by 2.8% in April compared to the previous year.

Adding to a pivotal month, President Cyril Ramaphosa met with US President Donald Trump at the White House. Despite some controversial moments, the talks behind the scenes were reportedly constructive. The South African Reserve Bank (SARB) also cut interest rates by 25 basis points and signalled scope for further easing. These developments supported the local markets: the Top 40 Index rose by 3.36% and the rand gained 4.03% against the US dollar and 3.83% against the euro.

Chart of the month

The following chart compares the budget balances of the G7 countries as a percentage of GDP. It shows that all countries have deficits, but the USA has by far the largest at almost -8% of GDP. This means that the US government spends much more than it earns in relation to the size of its economy, outperforming other large economies such as the UK, Italy, France and Japan. The consequence of such a large deficit is increased government borrowing, which can drive up interest rates, increase debt servicing costs and undermine

* The US has the largest fiscal deficit within the G7.



"Debt is like any other trap, easy enough to get into, but hard enough to get out of." —
Henry Wheeler Shaw



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