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Citrus Report

Four ways the global debt issue could end

Seeing trillions of dollars in debt sounds scary, but to understand the severity of the problem, we need to look at the **debt-to-GDP ratio** – the proportion of money a country owes in comparison to its economy's total output. So, if Gross Domestic Product (GDP) rises, it means total debt is not too shabby. That is the best way to escape the burden – but not the only one.

This is our sixth chapter in the series on rising global government obligations, this time observing possible solutions. Here are four paths:

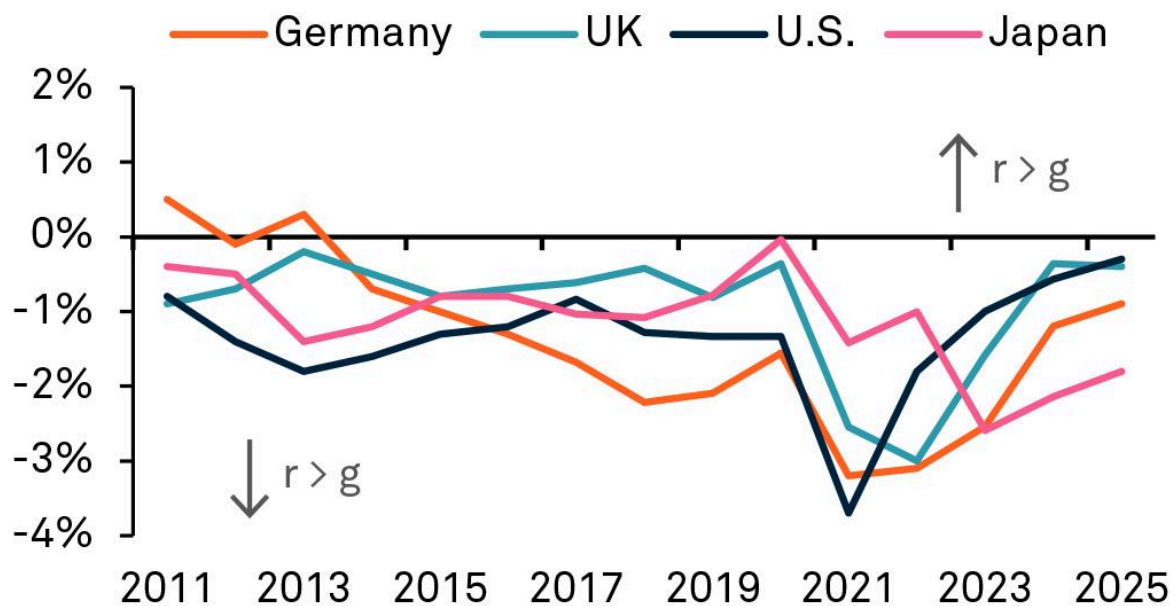
1. **Growing out of debt:** as discussed above, an expanding economy is the best exit path. That can be done through a productivity boom – led by AI, for example – and if the pace of increasing ROI outweighs real interest rates. This is not the most likely case, at least not the purest version of the growth escape.
2. **Financial repression:** A long and ugly way to resolve debt is to inflate it away. If price rises exceed Bond Yields for a long time, the value of obligations is eroded. However, it hurts savers who “quietly default.”

3. **Bond-market revolt:** We discussed the convulsion of British pension funds in response to then-PM Liz Truss's tax cuts in her 2022 "mini-budget." That ended her program and political career. The weakest link falls first, and everybody adopts austerity to stop spending. That may gradually reduce debt, but countries could suffer from a recession. It would repeat the early 2010s in the US and Europe.
4. **New Bond-buying:** Central banks may come to the rescue again by purchasing government debt and sending Yields down. The main issue is that restarting such programs while inflation is still untamed would add fuel to the fire. This would also erode trust in the central bank's independence.

What is the most likely path? Probably a messy mix of several approaches, such as attempts to grow out of debt with occasional bouts of austerity to depress inflation and avoid market wrath. Quantitative Easing (QE) programs would only kick in once inflation is depressed. Hopefully, that would happen with the global economy not being on its knees as well.

The benchmark US 10-year Yields are critical to watch. They influence everything.

Rate-growth differential for select countries:



Sources: BNY Investments, IMF. Data as of September 22, 2025.

Source: IMF

What to expect tomorrow?

After mentioning several potential assets to watch in the current scenario, we will dive into stress signals.