

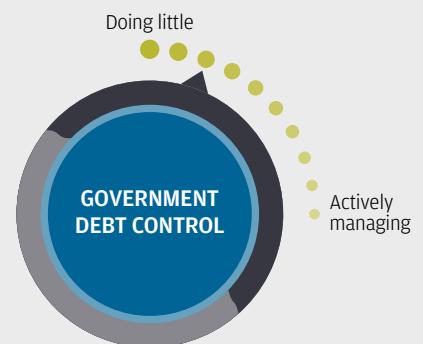
## WILL DEVELOPED ECONOMIES TACKLE THEIR MASSIVE PUBLIC DEBTS?

### 1 LEVELS OF PUBLIC DEBT IN DEVELOPED MARKET (DM) ECONOMIES HAVE DRIFTED UPWARD, BUT MANY GOVERNMENTS SEEM RELUCTANT TO ACT

Debt level rising relative to GDP since the global financial crisis

#### WHY DEBT IS RISING

- U.S. tax cuts
- European voter austerity fatigue
- Longer-term secular trend

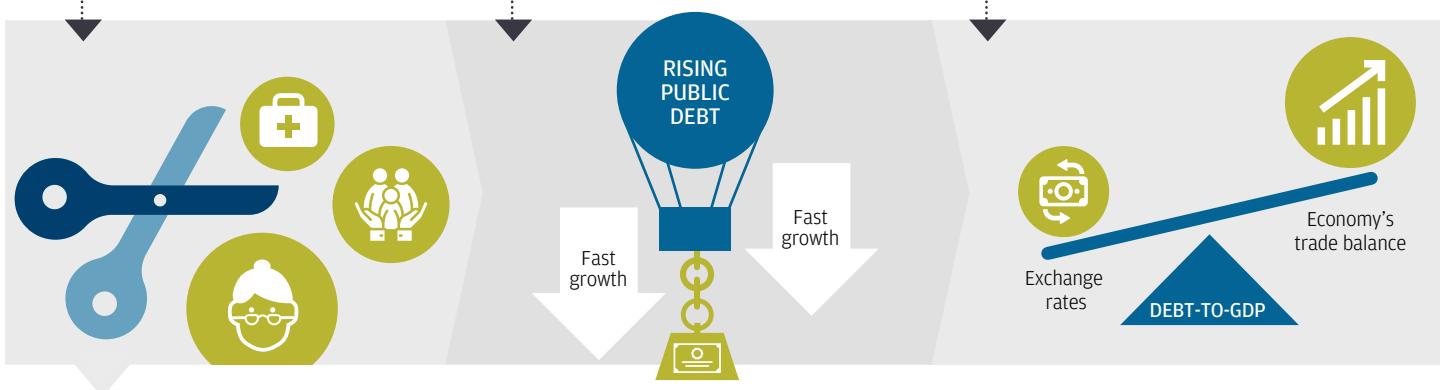


### 2 HISTORY SUGGESTS THREE HALLMARKS OF SUCCESSFUL DEBT CONSOLIDATION

Tough political choices to reduce government spending have been a prevalent feature of successful past consolidations.

Low government interest rates relative to growth are also significant.

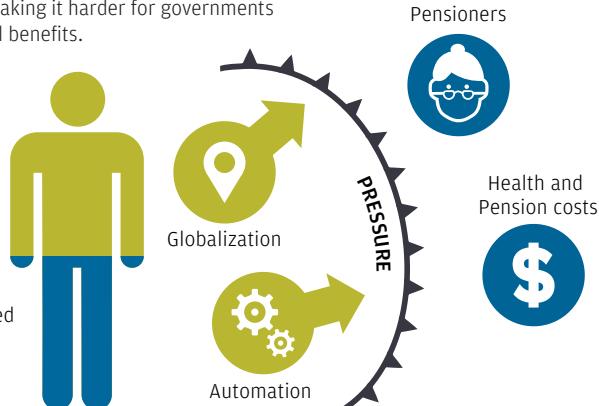
A currency depreciation tailwind boosts chances of success even further.



### 3 PREVAILING CONDITIONS ARE CHALLENGING FOR FUTURE EFFORTS TO BRING DOWN DEBT

Demographics, and globalization's pressure on laborers, are making it harder for governments to reduce social benefits.

Around half of eligible voters in the developed world aged 50 years or over



Higher central bank interest rates will raise the cost of servicing debt.

CENTRAL BANKS RAISING RATES AND / OR TIGHTENING MONETARY POLICY

GOVERNMENT INTEREST RATES RELATIVE TO GROWTH

## SHORT TERM

Continuing higher debt levels



## LIKELY

We believe the trend toward higher debt burdens may continue for some time. Fiscal authorities will have less firepower in the next downturn.

## LONG TERM

Debt consolidation lowering growth and/or interest rates projections



## SOME CHANCE

In the longer term, we see some potential for debt consolidation efforts to result in lower interest rate projections, but the impact on growth is ambiguous.

Potential risk to central bank independence



## WARNING

If governments do not look to reduce debt levels in the long run, we anticipate that central banks will face growing political pressure to provide a monetary solution.

## NEXT STEPS

For more information, contact your J.P. Morgan representative.

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