

# Investor Advisory Committee on Financial Markets Member Presentation Materials

February 12, 2025

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# How Countries Go Broke

**Ray Dalio**

February 2025

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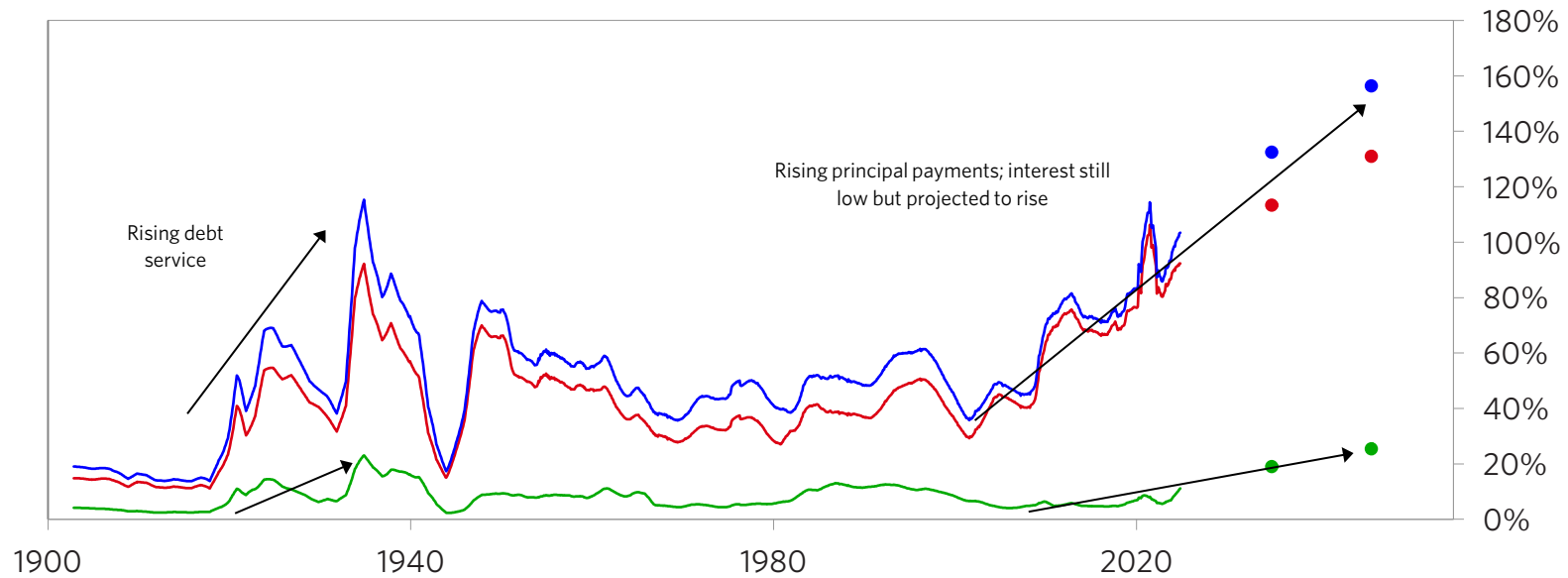
## **THE MAIN PROBABLE PROBLEMS**

- **A supply + demand problem**
- **A debt service problem**
- **A debt rollover problem**

# THE US GOVERNMENT LOOKS TO HAVE DANGEROUS DEBT LEVELS AND BORROWING TODAY

## USA Central Govt Debt Service (% Revenue)

— o/w Interest    — o/w Principal    — Total

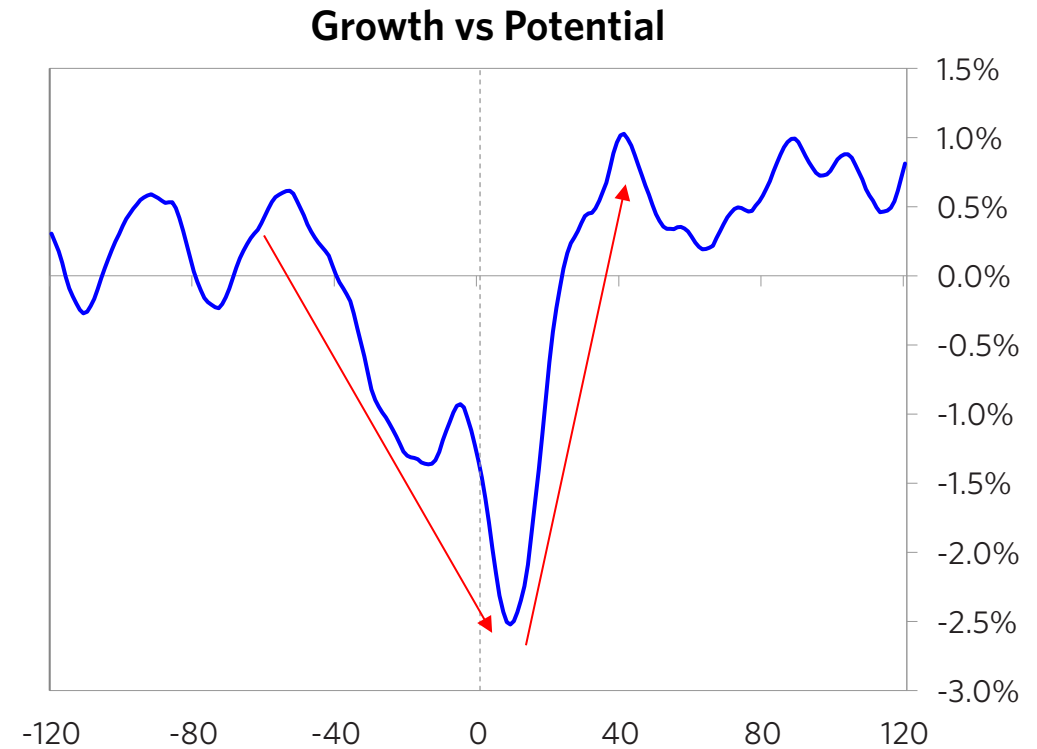
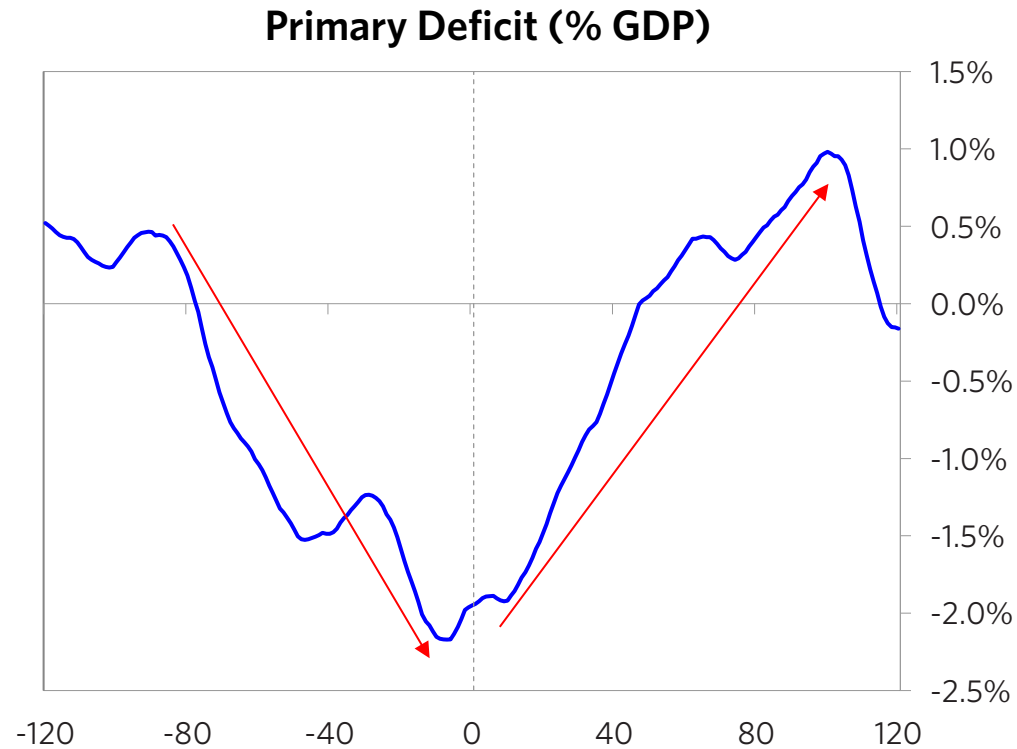


# AND THE SAME IS TRUE ACROSS MAJOR COUNTRIES



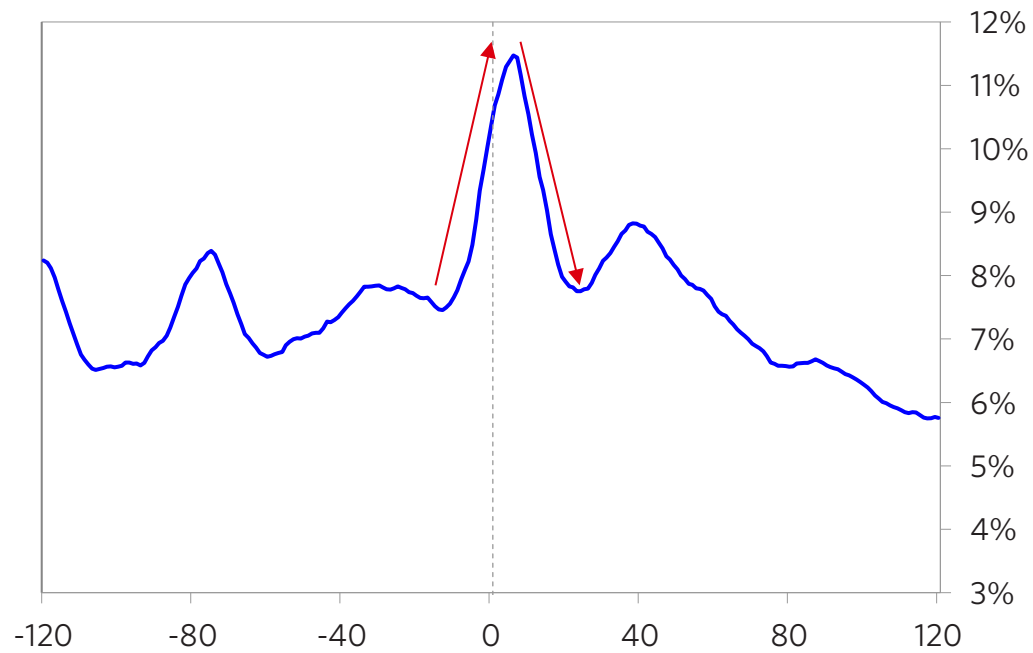
Source: Bloomberg Economics  
Note: Debt as proportion of gross domestic product

# I EXAMINED 35 HISTORICAL CASES OF COUNTRIES GOING BROKE

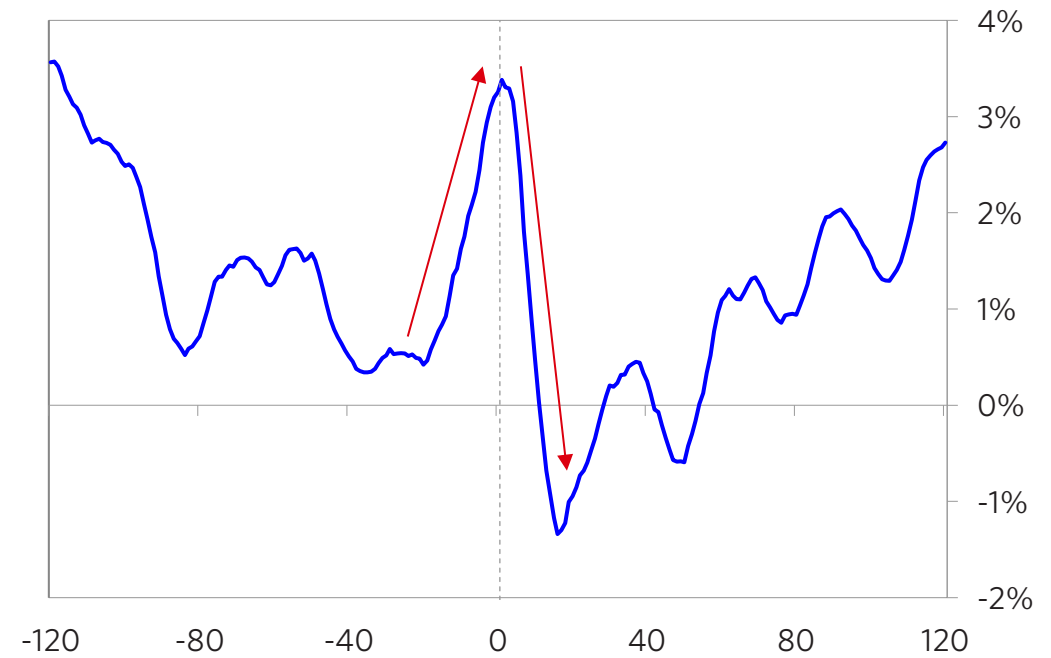


# I EXAMINED 35 HISTORICAL CASES OF COUNTRIES GOING BROKE

### Nominal Short Rate

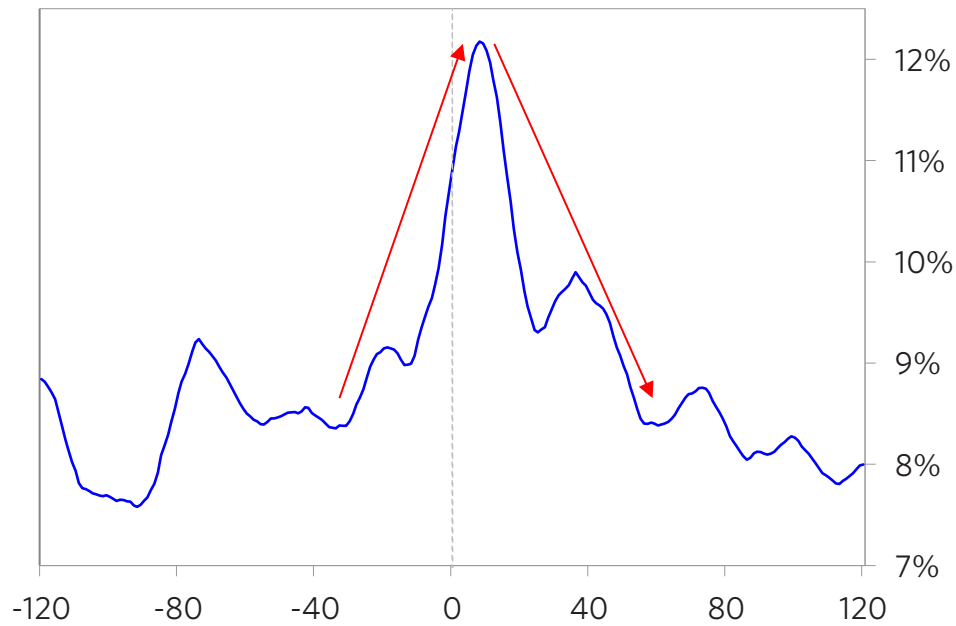


### Real Short Rate

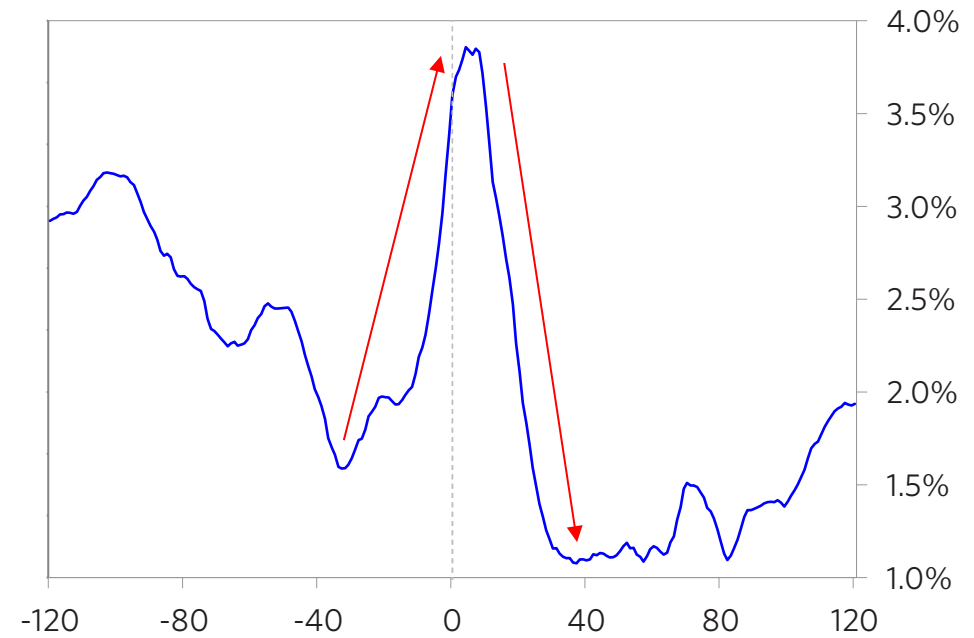


# I EXAMINED 35 HISTORICAL CASES OF COUNTRIES GOING BROKE

### Nominal Bond Yield

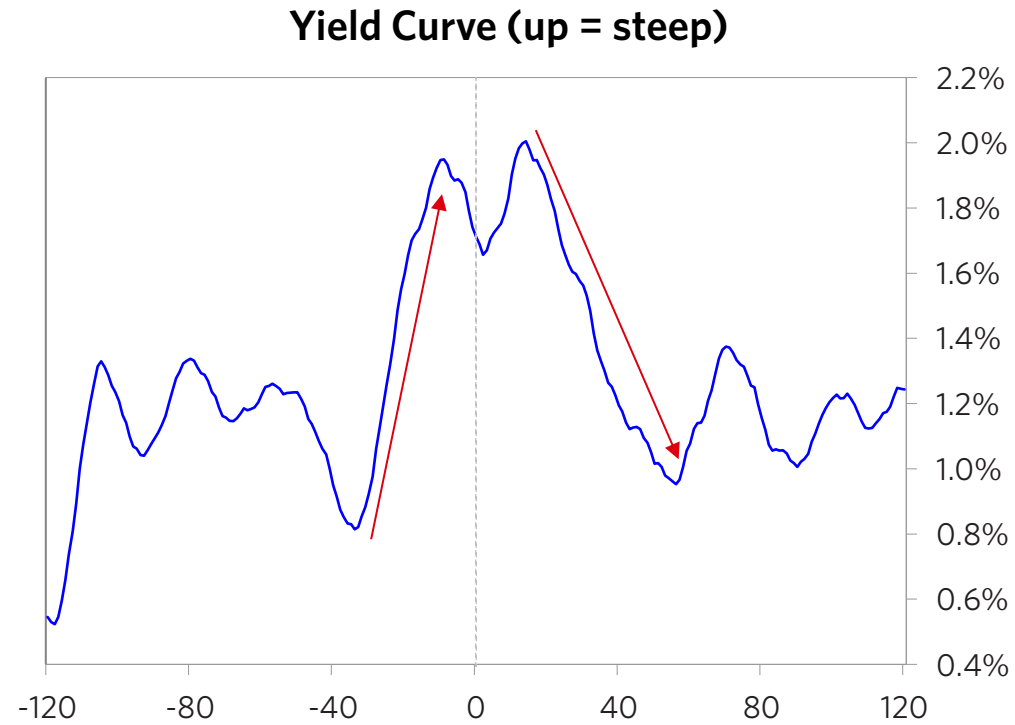


### Real Bond Yield

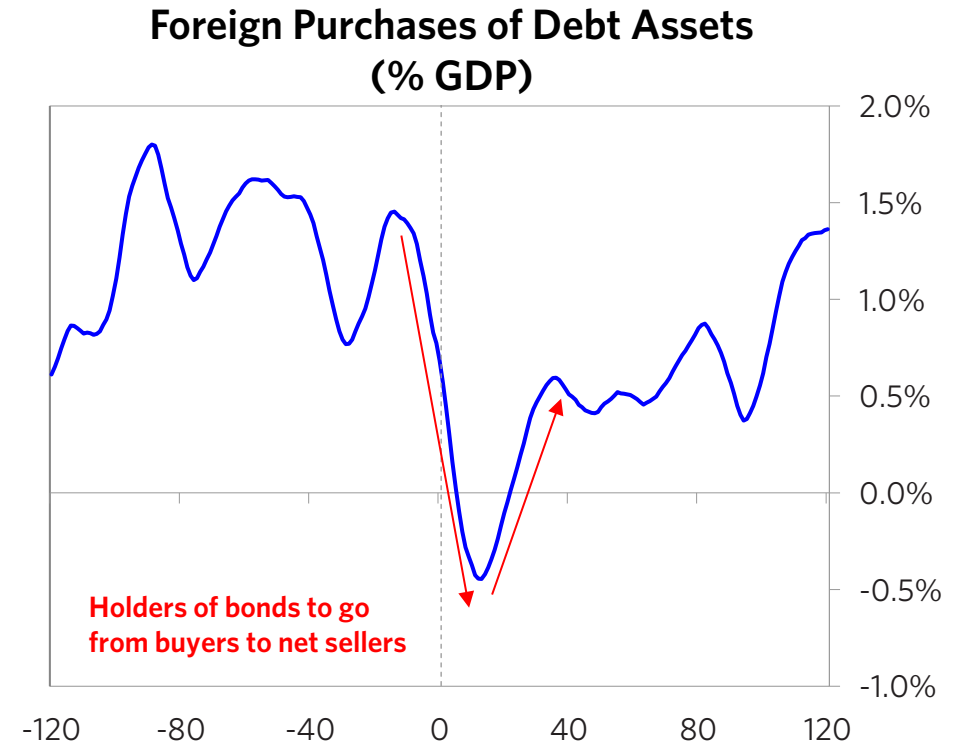
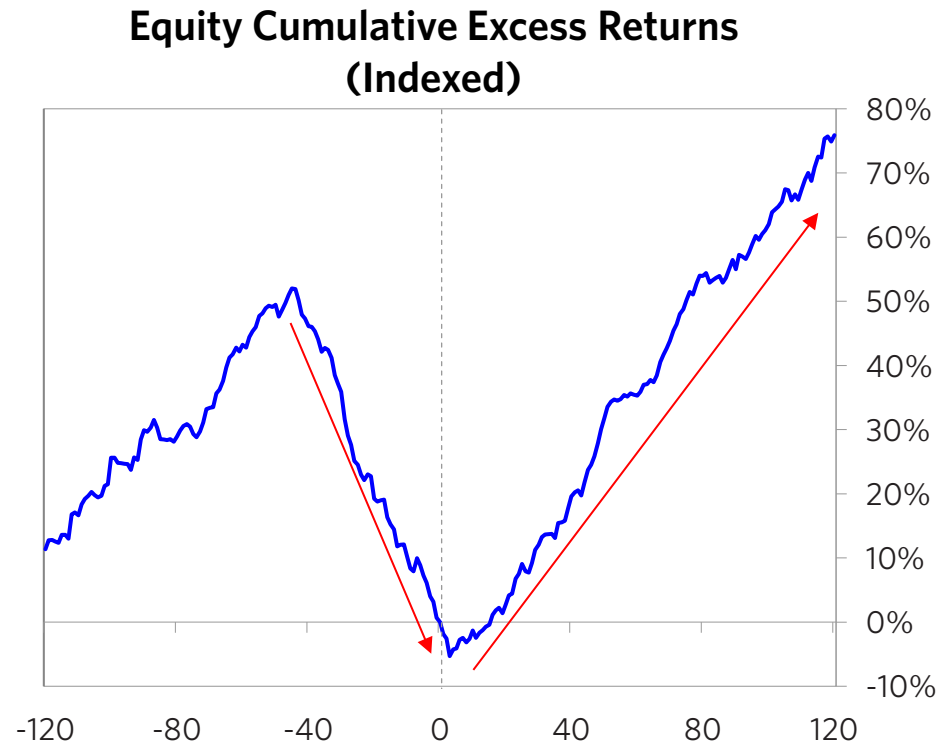




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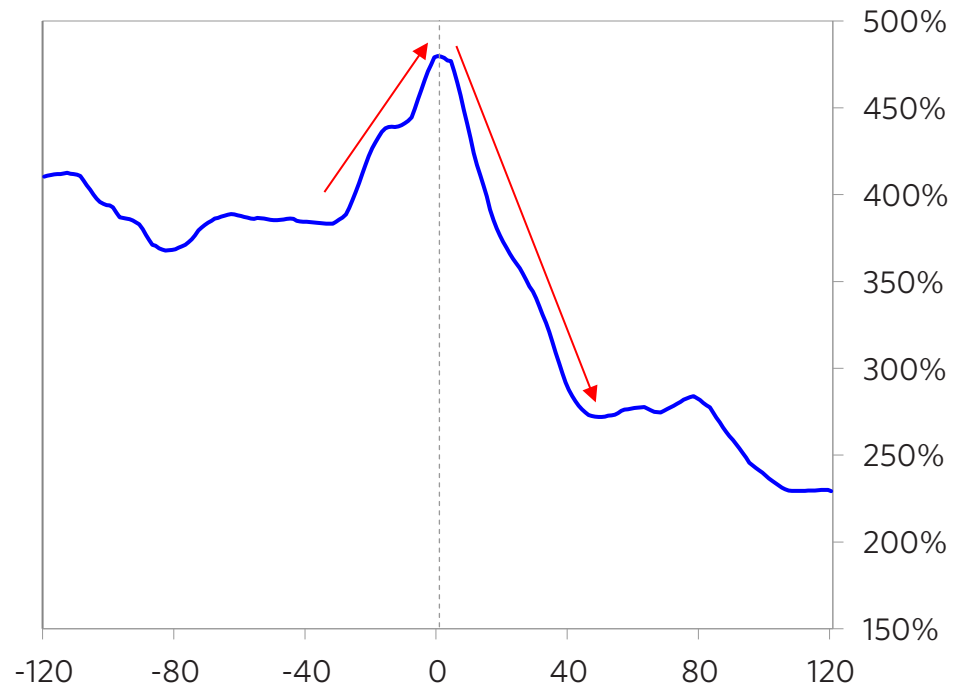


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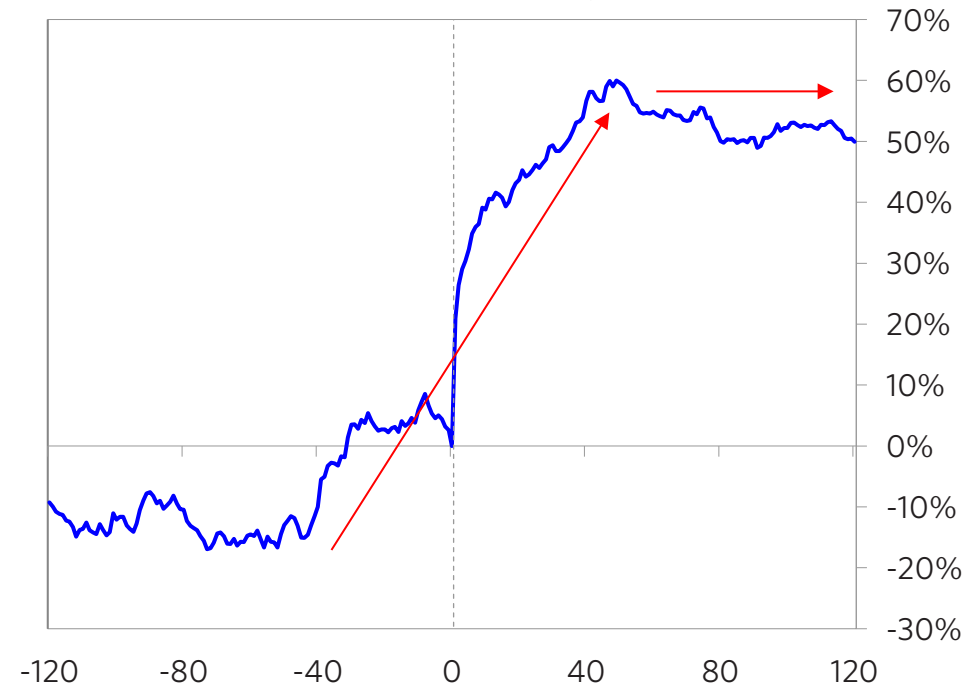


# I EXAMINED 35 HISTORICAL CASES OF COUNTRIES GOING BROKE

### Govt Debt Level (% Revenue)

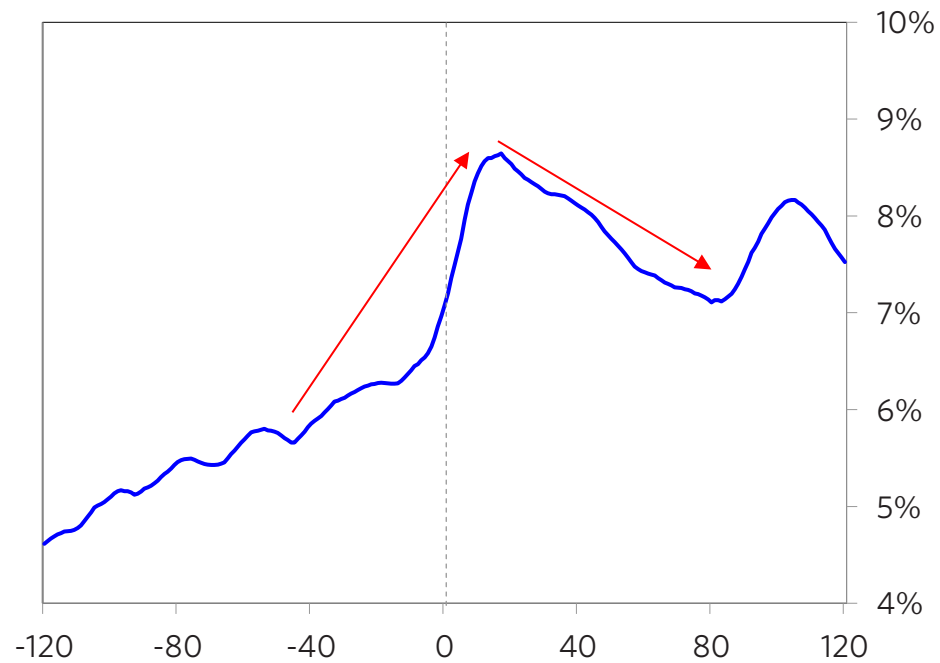


### Gold Return vs Local Currency Cash (Indexed)

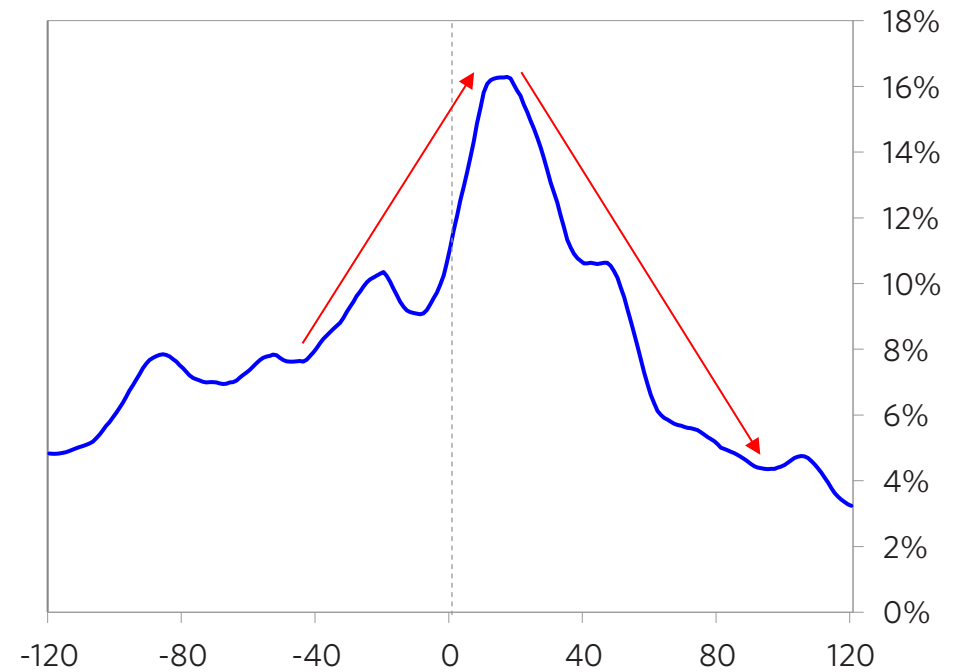


# I EXAMINED 35 HISTORICAL CASES OF COUNTRIES GOING BROKE

### Central Bank Bond Holdings (% GDP)

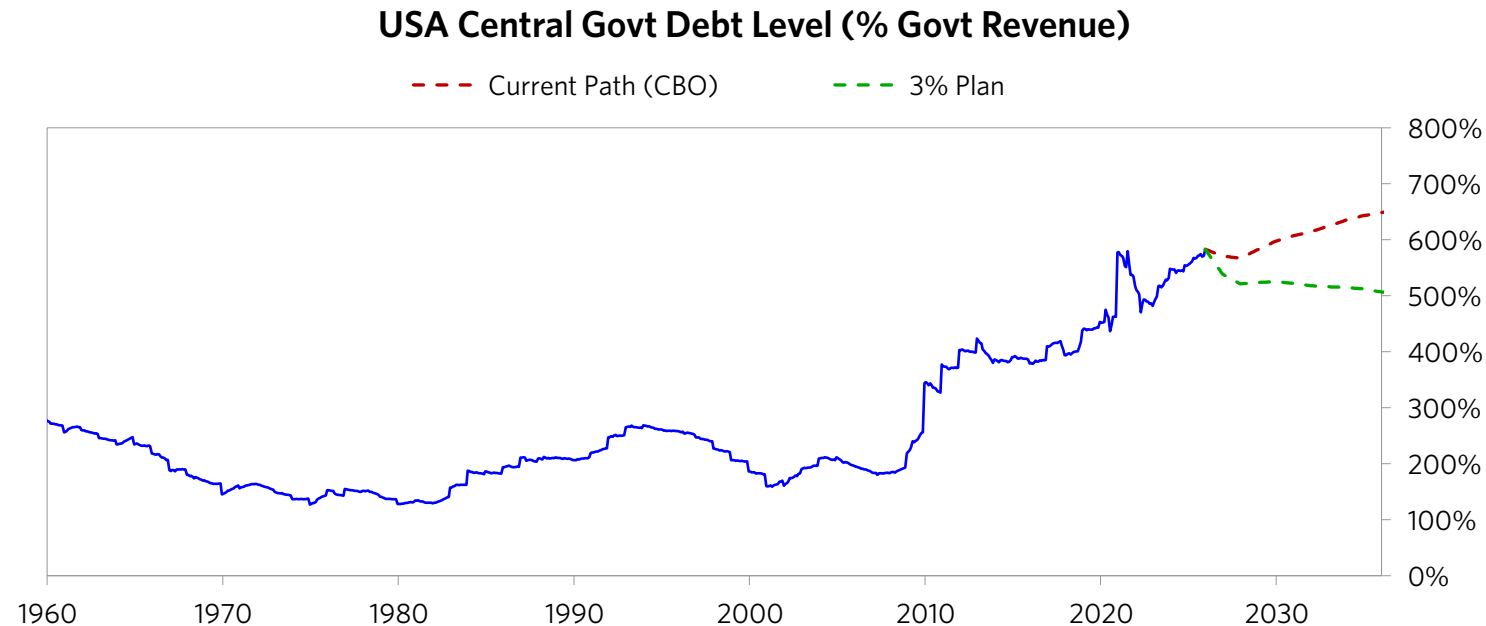


### Inflation



# WE NEED TO IMPROVE THE US'S FISCAL HEALTH: MY 3% PLAN

- The current path is to a deficit of 5.8% of GDP (2.53 trillion USD), even without extending the Trump tax cuts (another 1.5% of GDP)
- Need to cut borrowing to get the deficit to ~3%
- Now is the best time to do this!
- Spread it out: spending cuts (~4% of spending), tax increases (~4% of current taxes), interest rate cuts (~1% lower rates)



# A CUT LIKE THIS HAS GONE GREAT IN CASES SIMILAR TO THE US TODAY

Cases Where Significant Fiscal Adjustments Were Made

Case Description				Fiscal Outcomes			Macroeconomic Outcomes (Average Over Adjustment)					Determinants Of Economic Outcomes				
Country	Start	End	Length	Chg In Prim Struct Dfct (% GDP)	Share From Revenue Increases	Share From Primary Spending Cuts	Growth vs Potential	UE Rate vs 10Yr Avg	Slack	Inflation vs Target*	Avg Bond Yield vs Starting Level	Did Country Have Significant Hard Currency Debts?	Did Fiscal Changes Occur Into Strong Domestic Or Global Economy?	Did Fiscal Changes Produce Easier Financial Conditions?	Did Fiscal Changes Include Or Coincide w/ Big Productivity Enhancing Reforms?	
<b>Median (All Cases)</b>				4.0	5.7%	59%	41%	-0.3%	1.0%	-1.1%	-0.2%	-0.6%	10 of 40 Cases	17 of 40 Cases	25 of 40 Cases	23 of 40 Cases
<b>Median (Painless)</b>				5.0	5.4%	59%	41%	0.9%	0.4%	-0.5%	-0.5%	-1.2%	0 of 21 Cases	17 of 21 Cases	17 of 21 Cases	10 of 21 Cases
<b>Median (Painful)</b>				4.0	6.3%	54%	46%	-2.3%	2.6%	-1.7%	0.4%	0.6%	10 of 19 Cases	0 of 19 Cases	8 of 19 Cases	13 of 19 Cases
<b>Painless Cases</b>																
BEL	1982	1987	6	10.6%	--	--	-0.3%	0.8%	-1.8%	1.6%	-3.4%	NO	NO	YES	NO	
ITA	1990	1997	8	10.4%	100%	0%	-0.5%	0.9%	-0.1%	0.2%	-2.7%	NO	YES	YES	YES	
SWE	1993	2000	8	10.2%	100%	0%	1.1%	3.6%	-1.6%	-0.2%	-2.7%	NO	YES	YES	YES	
DNK	1983	1986	4	9.6%	100%	0%	--	0.6%	--	--	-6.6%	NO	NO	YES	NO	
IRE	1987	1989	3	7.9%	0%	100%	--	2.6%	-1.8%	-1.4%	-3.2%	NO	NO	YES	NO	
NOR	1993	1997	5	7.3%	2%	98%	2.9%	0.7%	-1.0%	-2.5%	-2.2%	NO	YES	YES	NO	
CAN	1994	1997	4	7.2%	21%	79%	0.9%	0.1%	-1.2%	-0.2%	0.9%	NO	YES	YES	NO	
GBR	1994	2000	7	6.0%	54%	46%	1.3%	-1.5%	0.0%	-1.1%	0.6%	NO	YES	YES	YES	
NLD	1996	2000	5	5.8%	6%	94%	1.8%	-1.2%	0.8%	-0.4%	-0.7%	NO	YES	YES	YES	
AUS	1986	1988	3	5.6%	--	--	0.8%	0.4%	0.8%	3.9%	-2.1%	NO	YES	YES	YES	
IND	2003	2007	5	5.4%	85%	15%	2.0%	--	-1.1%	-0.6%	0.8%	NO	YES	YES	NO	
JPN	1979	1985	7	5.3%	79%	21%	0.9%	0.5%	-0.3%	-1.0%	1.8%	NO	YES	NO	YES	
USA	1993	1998	6	4.9%	59%	41%	1.2%	-0.7%	-0.4%	-1.2%	-0.5%	NO	YES	YES	YES	
CAN	1986	1990	5	4.8%	44%	56%	-0.1%	-1.0%	2.1%	-0.3%	0.4%	NO	YES	NO	NO	
BEL	1993	1998	6	4.4%	--	--	-0.1%	0.9%	-1.2%	-1.4%	-1.2%	NO	NO	YES	NO	
PHP	2003	2006	4	4.2%	--	--	0.7%	--	-0.5%	-0.2%	-1.3%	NO	YES	NO	NO	
AUS	1994	1999	6	4.0%	100%	0%	1.2%	-0.4%	-0.3%	-0.2%	0.8%	NO	YES	NO	YES	
SWE	1984	1989	6	4.0%	60%	40%	1.6%	-0.6%	1.7%	1.5%	-0.4%	NO	YES	YES	NO	
PLD	2011	2014	4	3.8%	0%	100%	0.0%	-1.7%	-1.1%	-1.3%	-1.4%	NO	YES	YES	YES	
FRA	1994	1999	6	3.8%	29%	71%	0.4%	1.1%	-1.6%	-1.6%	0.4%	NO	YES	YES	NO	
TLD	2002	2005	4	2.8%	79%	21%	2.1%	-0.6%	0.4%	-1.2%	-1.2%	NO	YES	YES	YES	
<b>Painful Cases</b>																
GRC	2010	2014	5	16.6%	82%	18%	-6.8%	10.2%	-5.1%	-2.1%	8.1%	YES	NO	NO	YES	
IRE	2011	2014	4	10.6%	4%	96%	0.9%	5.3%	-5.5%	-1.8%	-3.4%	YES	NO	NO	YES	
GRC	1990	1994	5	10.0%	100%	0%	-1.2%	1.0%	0.0%	11.6%	--	NO	NO	NO	NO	
ESP	2010	2014	5	9.8%	14%	86%	-2.9%	9.4%	-4.1%	-1.2%	0.6%	YES	NO	NO	YES	
HUN	2007	2009	3	9.0%	26%	74%	-5.2%	1.7%	1.7%	-0.7%	1.3%	YES	NO	NO	NO	
PRT	2011	2014	4	8.8%	68%	32%	-2.8%	4.7%	-4.0%	-0.7%	1.1%	YES	NO	NO	YES	
PRT	1981	1984	4	8.6%	100%	0%	-2.4%	2.6%	-1.3%	18.8%	1.4%	NO	NO	NO	NO	
NZL	1987	1994	8	8.3%	100%	0%	-0.9%	2.6%	-2.3%	2.3%	-5.4%	NO	NO	YES	YES	
DEU	1996	1999	4	6.9%	47%	53%	-0.7%	1.6%	-0.7%	-1.5%	-0.8%	NO	NO	YES	YES	
ARG	2024	2024	1	6.3%	0%	100%	--	--	-1.6%	230.6%	-6.0%	YES	NO	YES	YES	
ARG	2001	2004	4	6.1%	88%	12%	-2.8%	2.6%	-10.4%	5.5%	37.9%	YES	NO	NO	NO	
ESP	1992	1997	6	5.1%	76%	24%	-0.7%	1.4%	-1.6%	-0.1%	-1.5%	NO	NO	YES	YES	
HUN	2012	2012	1	4.2%	61%	39%	-3.3%	2.7%	-5.6%	-1.6%	-2.1%	YES	NO	YES	NO	
HUN	1996	1996	1	4.1%	--	--	-2.2%	--	-1.7%	18.1%	--	NO	NO	YES	YES	
DEU	1992	1994	3	3.4%	0%	100%	-1.9%	0.7%	0.6%	1.8%	-1.0%	NO	NO	YES	YES	
NLD	1981	1983	3	3.2%	39%	61%	-2.4%	5.8%	-3.4%	0.4%	-0.2%	NO	NO	YES	YES	
TUR	2000	2001	2	3.1%	0%	100%	-10.3%	2.4%	-5.8%	47.9%	0.9%	YES	NO	NO	NO	
ITA	2011	2012	2	2.9%	100%	0%	-1.8%	1.9%	-0.3%	-0.1%	0.3%	YES	NO	NO	YES	
MEX	2015	2017	3	2.5%	45%	55%	-0.7%	-0.7%	1.7%	0.4%	0.6%	NO	NO	NO	YES	

Fiscal adjustments go great when you start like the US today (hot economy, debts in own currency)

Great example is the Clinton cuts

\*Before inflation targets were adopted, we use the trailing 10-year average inflation rate, bounded between 4.5% and 1.5%.

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