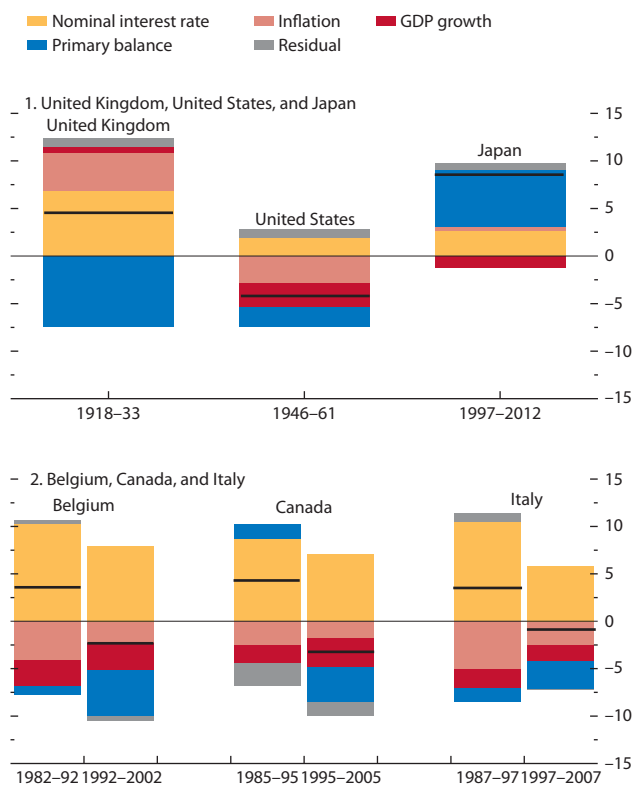


Figure 3.13. Decomposition of Debt Dynamics in Case Study Countries (Percent of GDP)

Despite large fiscal surpluses, the United Kingdom experienced sharply higher debt due to very high real interest rates caused by deflation. The United States successfully reduced debt through a combination of negative real interest rates and growth. Japan's increase in debt resulted mostly from its large fiscal deficits. The second phase of debt reduction for Belgium, Canada, and Italy was supported by larger fiscal surpluses and lower real interest rates.



Sources: Abbas and others (2010); Bank of Italy; Haver Analytics; Mitchell (1998); Reinhart and Rogoff (2010); and IMF staff calculations.
 Note: The decomposition of debt dynamics is based on a linearized version of