Global Debt Monitor
Déjà vu – lower rates, higher debt

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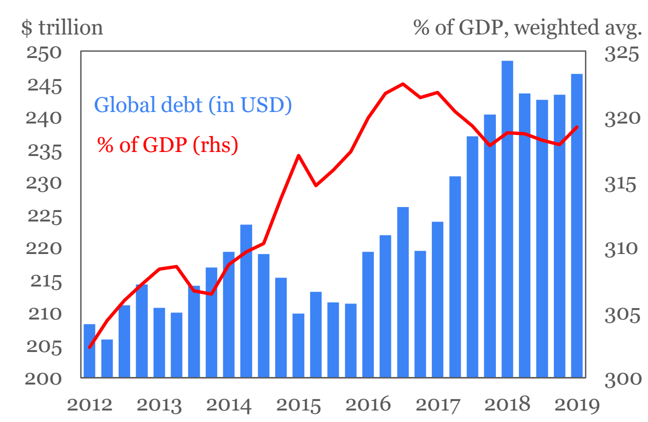
- Spurred by falling interest rates, global debt rose by a hefty $3 trillion in Q1 2019. At over $246 trillion, global debt is now just $2 trillion shy of the all-time high of Q1 2018. EM debt hit a record $69 trillion in Q1 2019—over 216% of GDP.
- Total U.S. debt is now nearing a record $70 trillion; federal government and non-financial corporate debt have hit new highs.
- Easier financial conditions will support further debt buildup, exacerbating concerns about debt service burdens and sovereign debt sustainability. Growing concern about the earnings outlook underscores risks for highly leveraged firms.
- High reliance on short-term debt leaves many emerging markets exposed to sudden shifts in global risk appetite: some $3 trillion of EM bonds/syndicated loans come due through end-2020.

- **Global debt rose by over $3 trillion in Q1 2019:** The 2018 slowdown in debt accumulation is looking more blip than trend: helped by the substantial easing in financial conditions, borrowers took on debt in Q1 2019 at the fastest pace in over a year. At $246 trillion (nearly 320% of GDP), global debt is now just $2 trillion away from the all-time high of $248 trillion reached in Q1 2018 (Chart 1). Looking ahead, broad-based central bank easing could well prompt more debt buildup across the board, undermining deleveraging efforts and reigniting concern about long-term headwinds to global growth. For some vulnerable low-income countries, debt sustainability is already at risk; in the corporate sector, rising debt levels are a growing burden for smaller or highly leveraged firms—particularly given the increasing clouds over the global earnings outlook.
- **Mature markets—some signs of fiscal expansion:** Following a substantial decline of $3.8 trillion in the last three quarters of 2018, total debt in mature markets rose by $1.6 trillion in Q1 2019 and now stands near $177 trillion (Table 1). Although most of the Q1 increase was due to a buildup in government debt (+$1 trillion), other sectors also saw a rise in debt levels. Finland, Canada and Japan have seen the biggest increase in debt-to-GDP ratios over the past year; however, some Euro Area economies (notably Netherlands, Ireland and Portugal) have continued with deleveraging.
- **EM debt hit a record high of $69 trillion (216% of GDP):** The persistent economy-wide increase in EM borrowing continues to feed into higher contingent liabilities for many sovereigns. With EM household and government debt reaching record highs, the rise in overall debt-to-GDP ratios since Q1 2018 has been most significant in Chile, Korea, Brazil, South Africa, Pakistan and China. In contrast, Ukraine, Egypt, UAE, Hungary and Lebanon have all reduced total debt ratios over the past year.

Chart 1: Big jump in global debt as financial conditions ease



Source: IIF, BIS, IMF

Table 1: Sectoral Indebtedness*

$ trillion	Households		Non-financial corporates		Government		Financial sector		Total	
	Q1 2019	*Q1 2018*	*Q1 2019*	*Q1 2018*	*Q1 2019*	*Q1 2018*	*Q1 2019*	*Q1 2018*	*Q1 2019*	*Q1 2018*
Mature markets	34.1	34.4	42.4	42.7	51.4	51.6	49.5	50.9	177.4	179.6
Emerging markets	12.5	12.0	30.1	30.8	15.6	15.3	10.9	10.8	69.1	68.9
Global	46.6	46.4	72.6	73.5	67.0	66.9	60.4	61.8	246.5	248.5

*Source: IIF, BIS, IMF, Haver, National Sources. *Household debt incorporates outstanding bank loans. Financial sector debt and non-financial corporate debt incorporate cross-border and domestic bank loans as well as onshore/offshore outstanding bonds. Government debt is extrapolated with IMF-WEO database. For details, see the "General Information" section of our database.*

The Global Debt Monitor and updated global debt database are available to IIF members on our website at https://www.iif.com/publications/global-debt-monitor. If you would like to receive regular updates about this publication, please subscribe here.

- **U.S. federal government hits a new peak:** Total U.S. debt has risen by $2.9 trillion since Q1 2018, bringing the U.S. debt mountain to all-time high of over $69 trillion in Q1 2019. Unsurprisingly, the rise in government debt—now over 101% of GDP—was a key driver. Lower rates might not help much: with annualized interest expense reaching a record high of $830 billion in Q1, we estimate that even a 100bp decline in borrowing costs would only reduce federal interest spending by $20-25 billion per year over the medium term.

- **Amber light for the U.S. corporate sector:** With U.S. corporate debt growing above trend, an increase in bank lending has helped push the debt of non-financial corporate firms to a new high of near 75% of GDP, adding to worries about vulnerabilities in the corporate sector (Table 2). While declining borrowing costs could provide some breathing room for U.S. firms with high refinancing needs, this may not do much to improve business sentiment (or investment spending) given trade tensions and concern about earnings growth. More broadly, our U.S. Business Health Index remains weak, driven by growing reliance on short-term debt, deteriorating interest coverage and quick ratios (as a proxy for liquidity), and declining RoA (Chart 2).

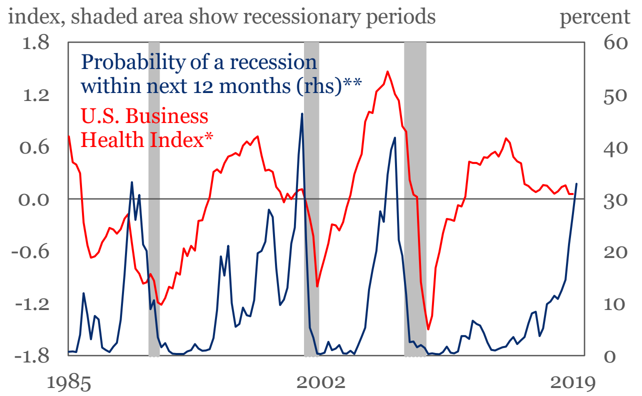
- **China: corporate deleveraging, but other sectors borrow more:** With total debt nearing 310% of GDP, deleveraging challenges for China remain acute. While authorities' efforts to curb shadow bank lending (particularly to SMEs) have prompted a cutback in non-financial corporate debt, net borrowing in other sectors has brought China's total debt to over $40 trillion—some 15% of all global debt. Of note, onshore bond issuance suggests a big pickup in borrowing by local governments and banks this year.

- **EM corporates are taking on more short-term debt—and thus more refinancing risk:** Short-term liabilities of listed EM non-financial firms make up some 35% of their total debt (vs. around 20% in mature markets), varying from 13% in Brazil to 75% in China (Chart 3). This greater reliance on short-term borrowing leaves some highly indebted firms more exposed to swings in global risk appetite. Fed rate cuts (with some help from the ECB, BoJ and PBoC) would therefore offer a renewed opportunity for firms to lengthen maturities and repair their balance sheets.

- **Emerging markets rely less on FX-denominated debt:** Following a rapid rise in 2017, FX debt of emerging markets has been stable near $8.5 trillion, and lower as a percentage of GDP (Chart 4). But in some cases, currency depreciation vs. the USD has meant higher FX debt ratios, e.g. for Argentina, South Africa, Turkey and Chile (Table 3).

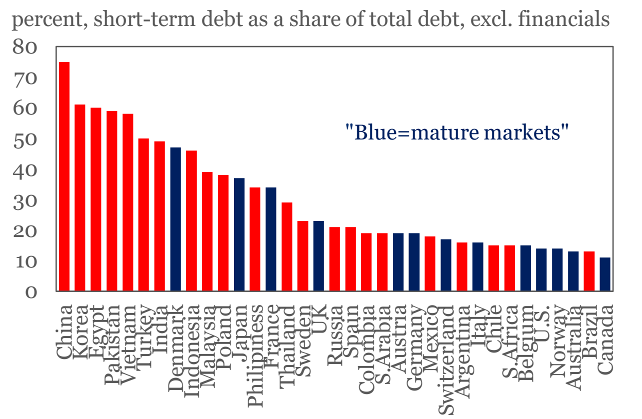
- **EM rollover risk:** Close to $3 trillion of EM bonds and syndicated loans come due through end-2020, with USD redemptions accounting for over 30% of the total. For country details see our database.

Chart 2: U.S. business health on the decline, probability of U.S. recession on the rise



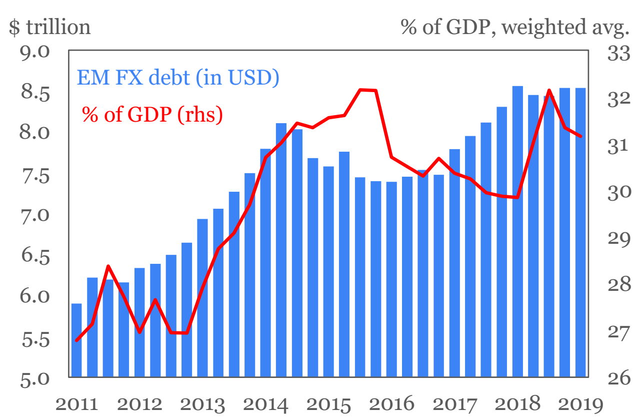
*Source: IIF, Fed; * a weighted average of the first four factor loadings from the twelve variables which summarize U.S. firms' financial strengths and vulnerabilities; **Fed's model uses the difference btw 10-year and 3-month Treasury rate to calculate the probability of recession twelve months ahead*

Chart 3: EM firms face high short-term refinancing needs



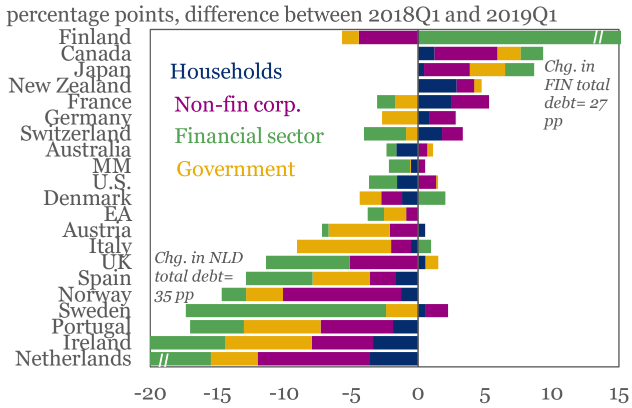
*Source: Bloomberg, IIF' *only incorporates firm traded in stock exchanges*

Chart 4: Emerging markets reduce reliance on FX debt*



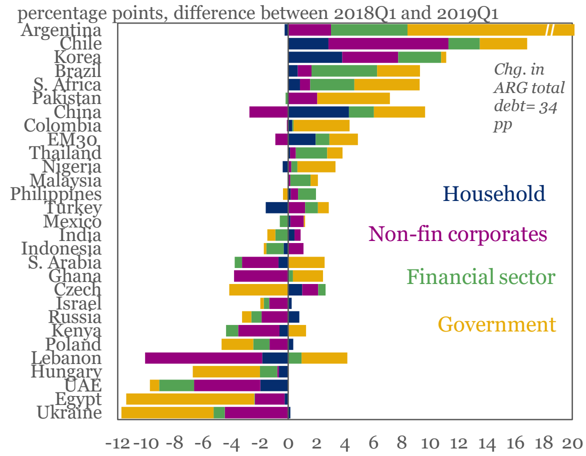
*Source: IIF' *includes financial sector*

Chart 5: Change in mature market debt-to-GDP



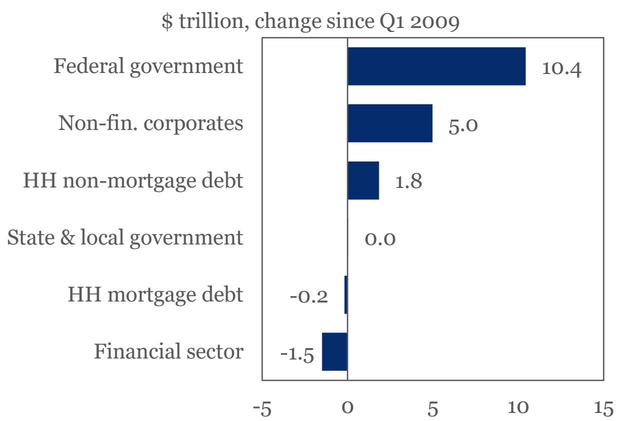
Source: BIS, Fed, ECB, BoJ, Haver, IIF.

Chart 6: Change in emerging market debt-to-GDP



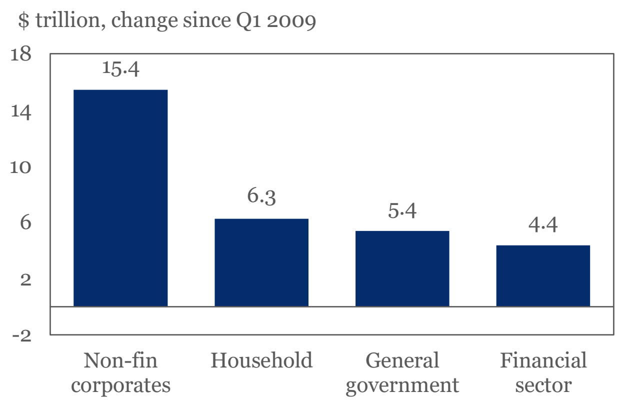
Source: BIS, Haver, IIF.

Chart 7: Change in U.S. debt by sector



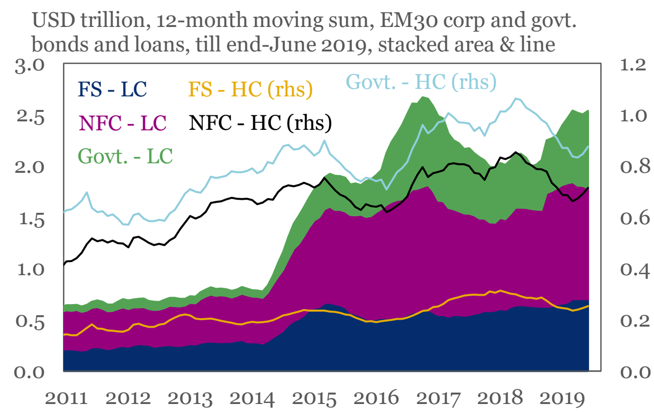
Source: Fed, IIF

Chart 8: Change in Chinese debt by sector



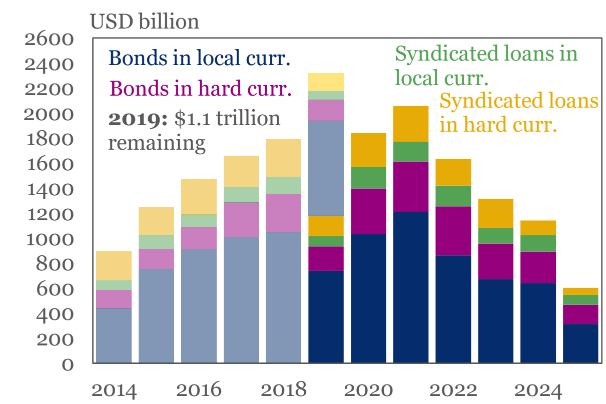
Source: BIS, IIF.

Chart 9: Rebound in EM debt issuance (mostly gov't)



Source: Thomson One, IIF; FS = financial sector, NFC = non. financial corporates, and Govt. = government; HC = hard currency, LC = local currency

Chart 10: EM debt maturity profile by currency



Source: Thomson One, IIF.

Table 2: Total Global Debt by Sector

% of GDP	Households		Non-financial corporates		Government		Financial Sector	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
Global	**59.8**	**59.4**	**91.4**	**91.4**	**87.2**	**86.5**	**80.8**	**81.4**
Mature markets	**72.3**	**72.8**	**90.7**	**90.2**	**109.1**	**109.2**	**108.5**	**110.1**
U.S.	74.6	76.2	74.0	72.7	101.2	101.0	78.1	80.2
Euro Area	57.4	57.4	105.1	106.0	99.1	100.8	123.5	124.7
Japan	55.2	54.7	102.5	99.0	226.4	223.8	151.7	149.5
UK	86.7	86.2	78.4	83.5	105.0	104.1	171.9	178.1
Emerging markets	**38.8**	**36.9**	**92.6**	**93.5**	**50.5**	**48.5**	**34.5**	**33.5**
EM Asia	50.1	47.0	122.8	124.2	51.7	49.7	42.9	42.0
China	54.0	49.7	155.6	158.3	51.0	47.4	43.0	41.3
Hong Kong	73.2	71.0	222.4	235.4	52.9	70.3	150.7	157.9
India	11.6	11.2	46.1	45.7	67.0	67.6	4.1	5.0
Indonesia	16.7	17.0	23.0	21.9	29.6	29.8	8.7	10.0
Malaysia	66.2	66.2	67.6	67.5	51.2	50.7	31.6	30.2
Pakistan	2.8	2.8	17.8	15.7	73.4	68.3	0.9	1.1
Philippines	16.2	16.0	33.7	33.2	39.5	39.8	12.0	10.7
S. Korea	99.0	95.2	103.0	99.1	38.9	38.5	83.0	79.9
Singapore	55.0	56.2	116.9	112.6	112.6	110.2	188.0	201.3
Thailand	68.5	68.4	47.9	47.5	33.9	32.8	38.8	36.6
EM Europe	19.6	19.6	52.0	52.9	29.1	30.2	18.9	19.3
Czech Republic	32.5	31.5	57.4	56.3	33.7	37.9	34.8	34.3
Hungary	17.8	18.5	66.8	66.9	73.3	78.0	21.8	23.0
Poland	35.4	35.0	45.7	47.0	50.7	52.9	22.1	23.3
Russia	16.6	15.8	44.6	46.5	14.6	15.2	11.4	12.1
Turkey	15.6	17.1	70.4	69.2	31.9	31.2	28.9	28.0
Ukraine	6.0	5.9	28.9	33.4	63.4	69.9	12.3	13.1
EM Latam	23.2	22.7	37.5	35.9	67.4	62.3	27.9	25.1
Argentina	6.9	7.2	16.6	13.6	87.0	60.8	16.6	11.2
Brazil	27.8	27.1	41.6	40.6	87.6	84.6	38.5	33.9
Chile	46.4	43.6	101.2	92.7	27.9	24.6	46.4	44.2
Colombia	27.0	26.7	35.0	35.1	53.7	49.8	5.9	5.8
Mexico	16.3	16.2	26.3	25.3	35.4	35.3	16.2	16.8
AFME	18.3	18.7	44.2	46.1	40.5	39.7	12.8	12.9
Egypt	7.2	7.4	25.1	27.2	91.0	100.0	5.9	5.9
Ghana	2.6	2.5	19.5	23.3	59.9	57.8	3.3	3.0
Israel	41.9	41.7	69.4	70.7	60.1	60.4	9.2	9.6
Kenya	7.5	8.1	23.9	26.8	56.7	55.4	1.9	2.7
Lebanon	73.8	75.6	99.4	107.6	152.7	149.5	8.6	7.7
Nigeria	3.9	4.3	12.0	11.7	28.9	26.2	4.2	3.7
Saudi Arabia	11.6	12.3	42.8	45.4	20.3	17.7	4.1	4.6
South Africa	34.1	33.3	39.2	38.5	59.3	54.7	25.6	22.5
UAE	21.3	23.3	86.0	90.6	18.8	19.5	41.4	43.9

Sources: IIF, BIS, Haver, National Sources.

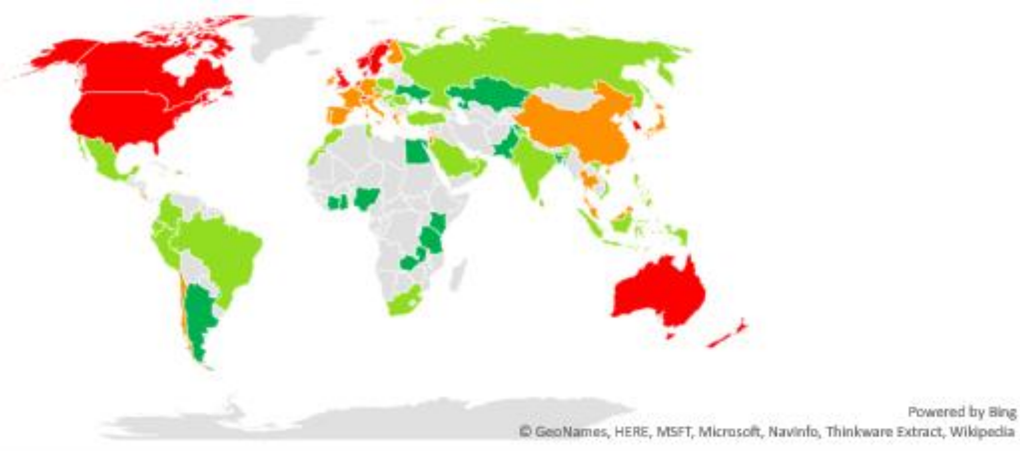
Table 3: Currency Breakdown of EM Sectoral Debt

% of GDP	Non-financial corporates				Government				Financial Sector				Households	
As of July 2019	LC	FC	o/w USD	o/w EURO	LC	FC	o/w USD	o/w EURO	LC	FC	o/w USD	o/w EURO	LC	FC
Emerging markets														
EM Asia														
China	148.4	7.1	6.0	0.7	50.6	0.4	0.4	0.0	36.7	6.4	5.1	0.7	54.0	0.0
Hong Kong	36.9	185.5	146.7	18.7	51.9	1.0	1.0	0.0	33.4	117.2	93.7	11.3	70.7	2.5
India	38.5	7.7	6.5	0.7	65.1	1.9	1.9	0.0	0.7	3.4	3.0	0.2	11.6	0.0
Indonesia	12.3	10.7	9.4	0.6	20.9	8.7	7.2	1.0	3.7	5.0	4.5	0.3	16.4	0.3
Malaysia	49.7	17.9	12.5	0.8	49.7	1.5	1.0	0.0	13.0	18.6	14.6	1.6	65.9	0.3
S. Korea	84.7	18.4	15.8	1.0	38.4	0.5	0.4	0.1	59.4	23.6	19.0	2.9	98.4	0.6
Singapore	55.2	61.8	46.8	5.0	112.6	0.0	0.0	0.0	45.5	142.6	103.7	13.1	44.5	10.4
Thailand	36.3	11.6	9.2	0.7	33.6	0.3	0.3	0.0	30.9	7.8	6.8	0.5	68.4	0.1
EM Europe														
Czech Republic	32.4	25.1	1.7	22.8	30.3	3.4	0.0	3.3	28.8	6.0	0.3	5.6	32.4	0.1
Hungary	34.8	32.0	9.7	22.0	59.8	13.4	9.4	3.4	6.9	14.8	6.6	8.0	17.7	0.1
Poland	31.1	14.6	2.9	9.9	35.6	15.1	2.8	11.4	12.1	10.0	1.6	4.7	22.7	12.7
Russia	30.0	14.7	7.7	5.9	10.8	3.7	3.5	0.2	5.9	5.4	4.2	0.9	16.4	0.2
Turkey	29.3	41.1	21.8	18.7	16.5	15.4	9.7	4.5	4.8	24.1	17.6	6.3	15.5	0.0
EM Latam														
Argentina	4.0	12.6	11.8	0.4	15.7	71.3	57.6	7.8	2.1	14.6	1.3	0.1	6.7	0.3
Brazil	25.8	15.8	14.6	1.0	84.3	3.4	2.8	0.5	29.7	8.8	8.3	0.4	27.8	0.0
Chile	64.2	36.9	35.9	0.6	22.3	5.6	3.2	2.4	36.5	10.0	8.5	0.3	44.5	1.9
Colombia	23.3	11.7	10.3	0.8	41.8	11.9	11.1	0.6	0.4	5.4	5.2	0.2	27.0	0.1
Mexico	7.5	18.7	14.3	3.0	29.3	6.1	4.4	1.1	13.3	2.9	2.3	0.4	16.3	0.0
AFME														
Israel	44.3	25.0	17.3	5.6	49.1	11.1	7.3	3.8	7.8	1.3	0.8	0.3	41.7	0.3
S. Arabia	35.0	7.9	7.3	0.4	10.5	9.8	9.8	0.0	0.6	3.5	3.1	0.1	11.6	0.0
S. Africa	22.0	17.2	12.0	3.1	51.8	7.5	6.5	0.6	13.8	11.8	5.0	1.5	33.7	0.4

Sources: IIF, BIS, Haver, National Sources, IIF estimates

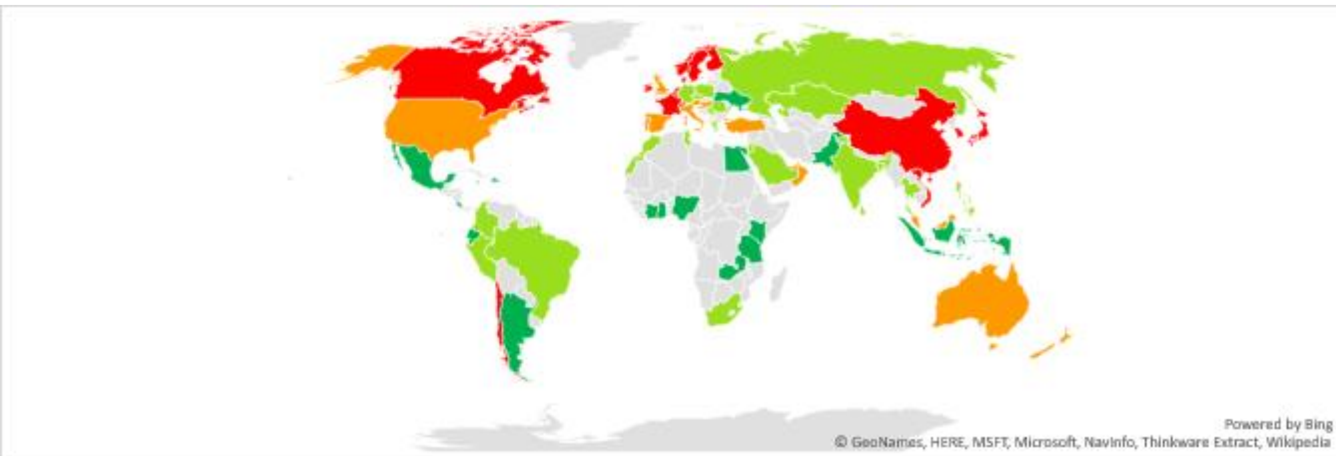
**LC=local currency; FC=foreign currency*

Global household debt-to-GDP, 2019 Q1 (or latest) *



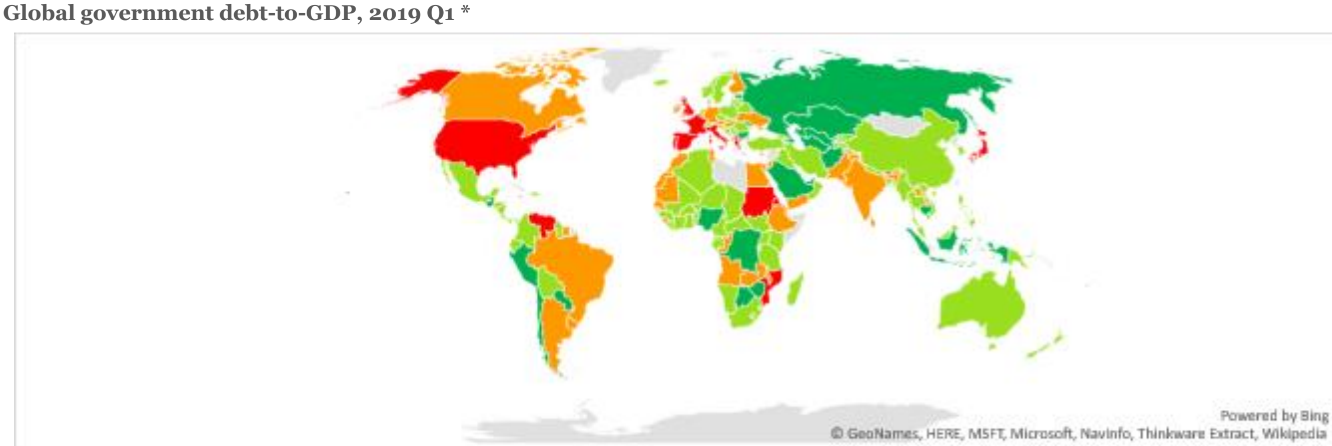
**Countries with relatively lower and higher debt levels are highlighted in green and red, respectively (Green<Yellow<Orange<Red).*
Source: IIF Global Debt Monitor; IIF Frontier Debt Monitor

Global non-financial corporate debt-to-GDP, 2019 Q1 (or latest) *



**Countries with relatively lower and higher debt levels are highlighted in green and red, respectively (Green<Yellow<Orange<Red).*
Source: IIF Global Debt Monitor; IIF Frontier Debt Monitor

Global government debt-to-GDP, 2019 Q1 *



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