INSTITUTE OF INTERNATIONAL FINANCE

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High and Rising Debt Levels: Should we worry?
Global Debt Monitor Slide Deck

Emre Tiftik, Deputy Director, Global Policy Initiatives

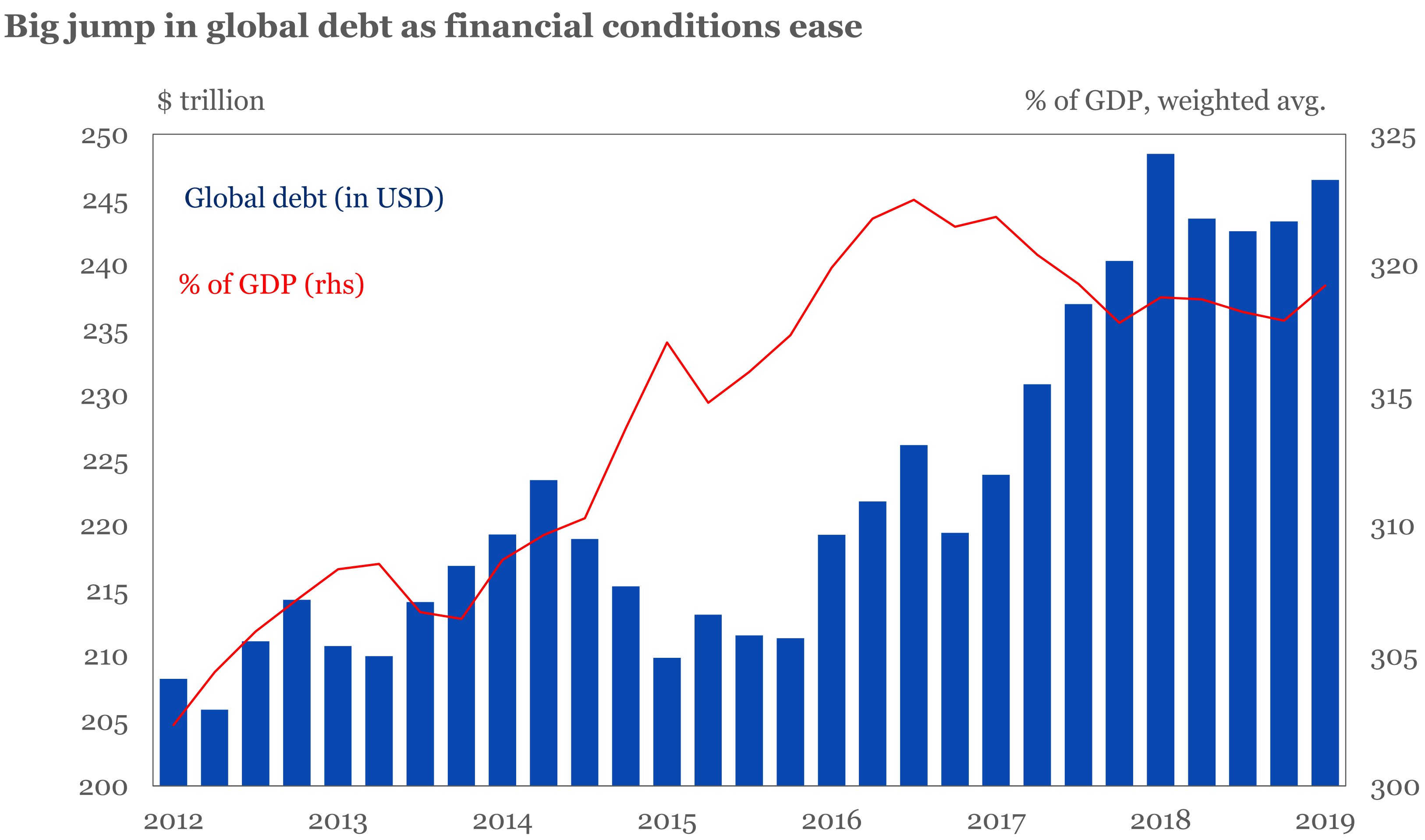
Khadija Mahmood, Associate Economist, Global Policy Initiatives

IIF Quarterly Global Debt Monitor

- Launched in November 2015 in response to growing demand from our members, both private and public sector
- In-depth analysis of debt dynamics by sector, country, currency
  - ➢ Over 70 countries/regions—including mature, emerging, frontier markets
  - ➢ Timely updates: Q1 1995 – Q1 2019, published quarterly
  - ➢ Offers coverage of all four major sectors—household, non-financial corporate, financial and public sector
  - ➢ Quarterly estimates of currency breakdown of EM debt by sector and country (USD, EUR, other foreign currencies, and local currency)
  - ➢ Detailed data on issuance and maturity profile of EM bonds and syndicated loans
  - ➢ Credit watch: assessment of trends in sovereign/corporate ratings
  - ➢ Others: foreign/domestic ownership of EM local currency government debt; sectoral credit-to-GDP gap series; redemption profile of U.S. HY/IG corporate bonds

Sources: BIS, IMF, Bloomberg, Haver, Thomson One, National Sources, IIF Global Debt Monitor, IIF Weekly Insight

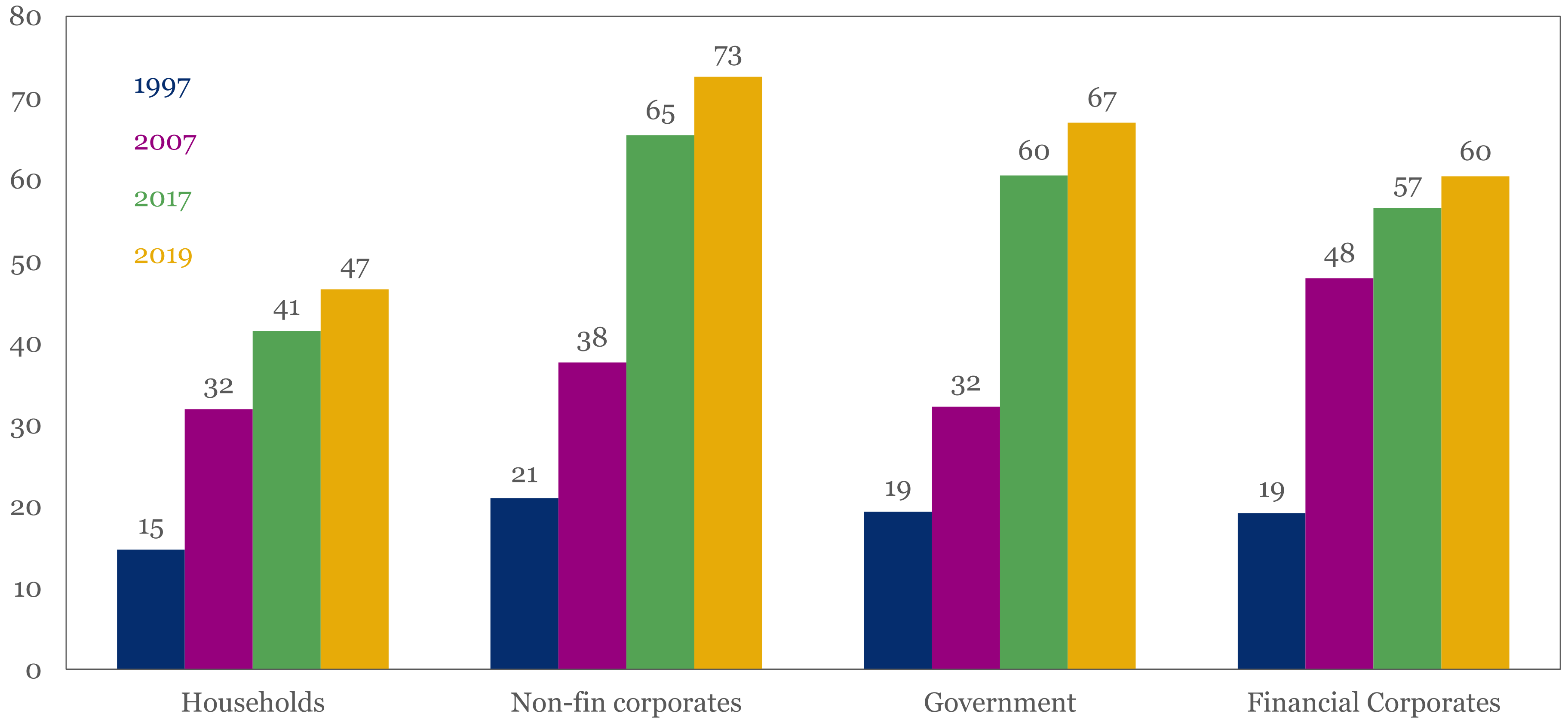
Déjà vu – lower rates, higher debt



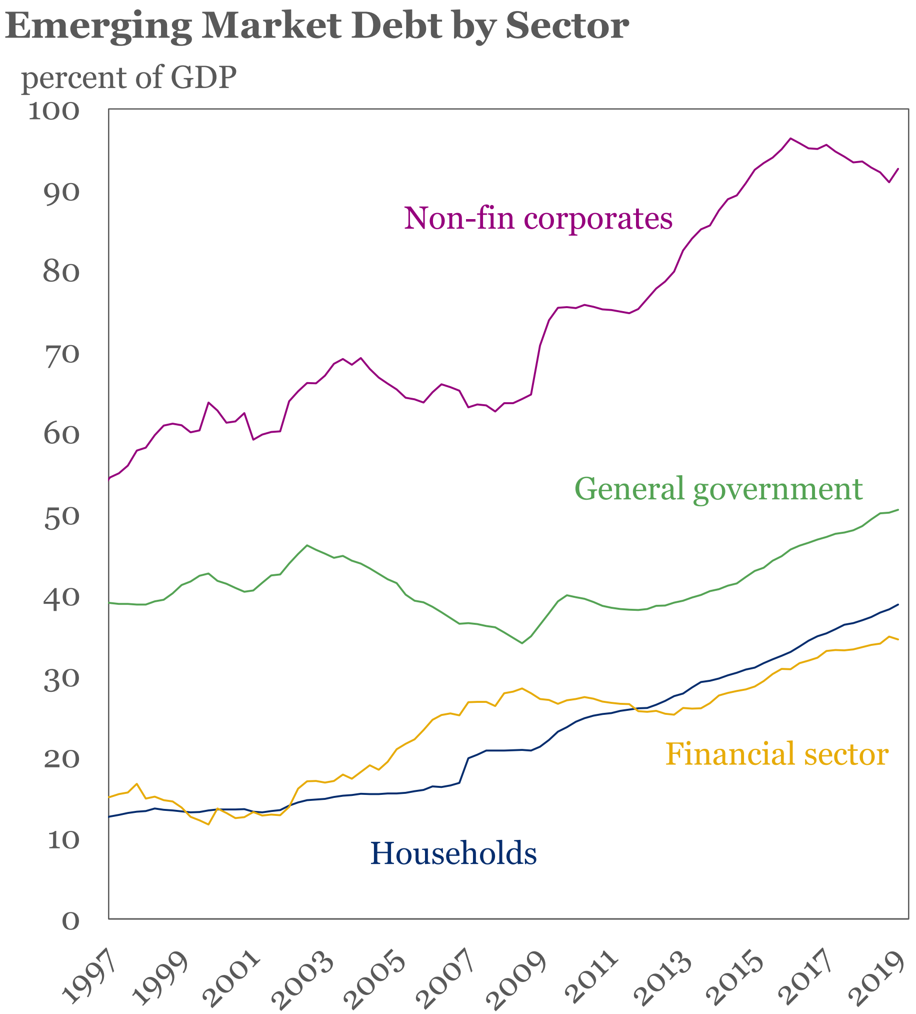
Non-financial corporate and government sectors have seen the biggest rise in debt levels since 2007 (in nominal terms)

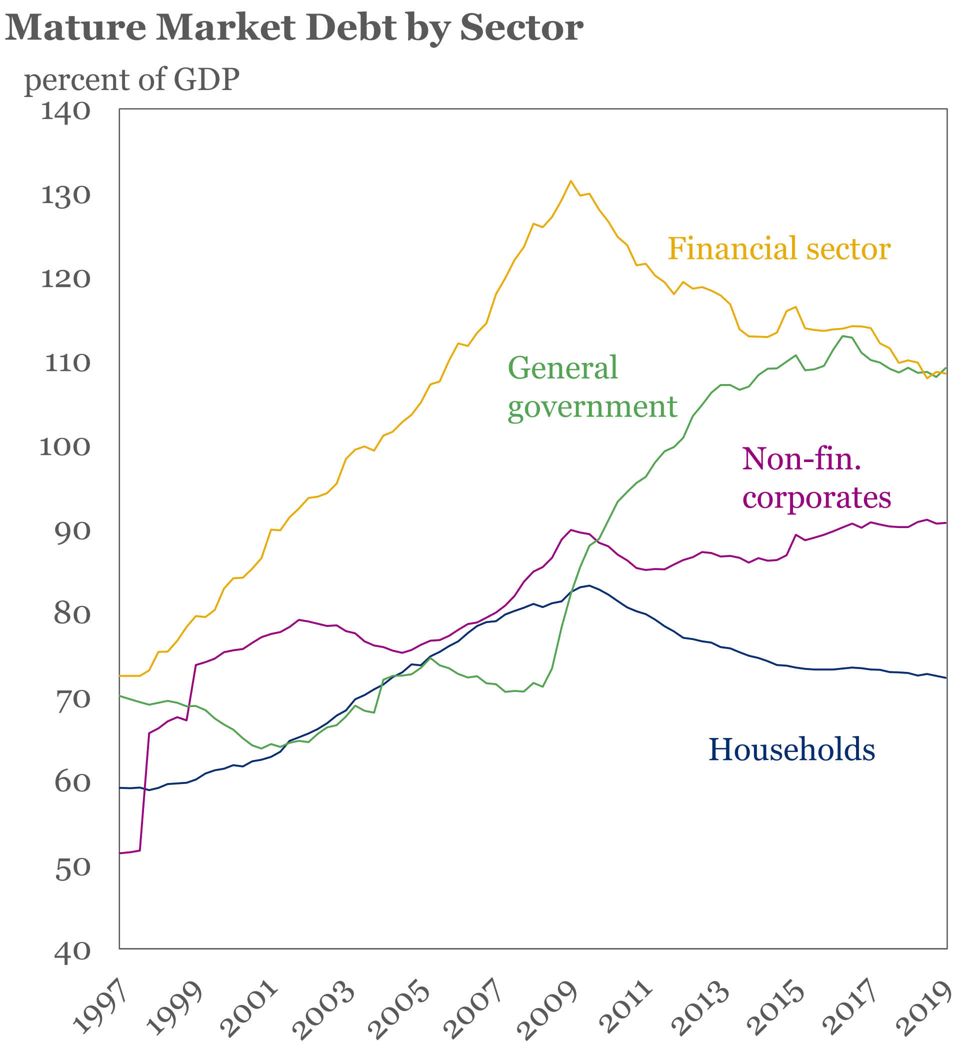
Global Sectoral Indebtedness

$billion, Q1 of each year

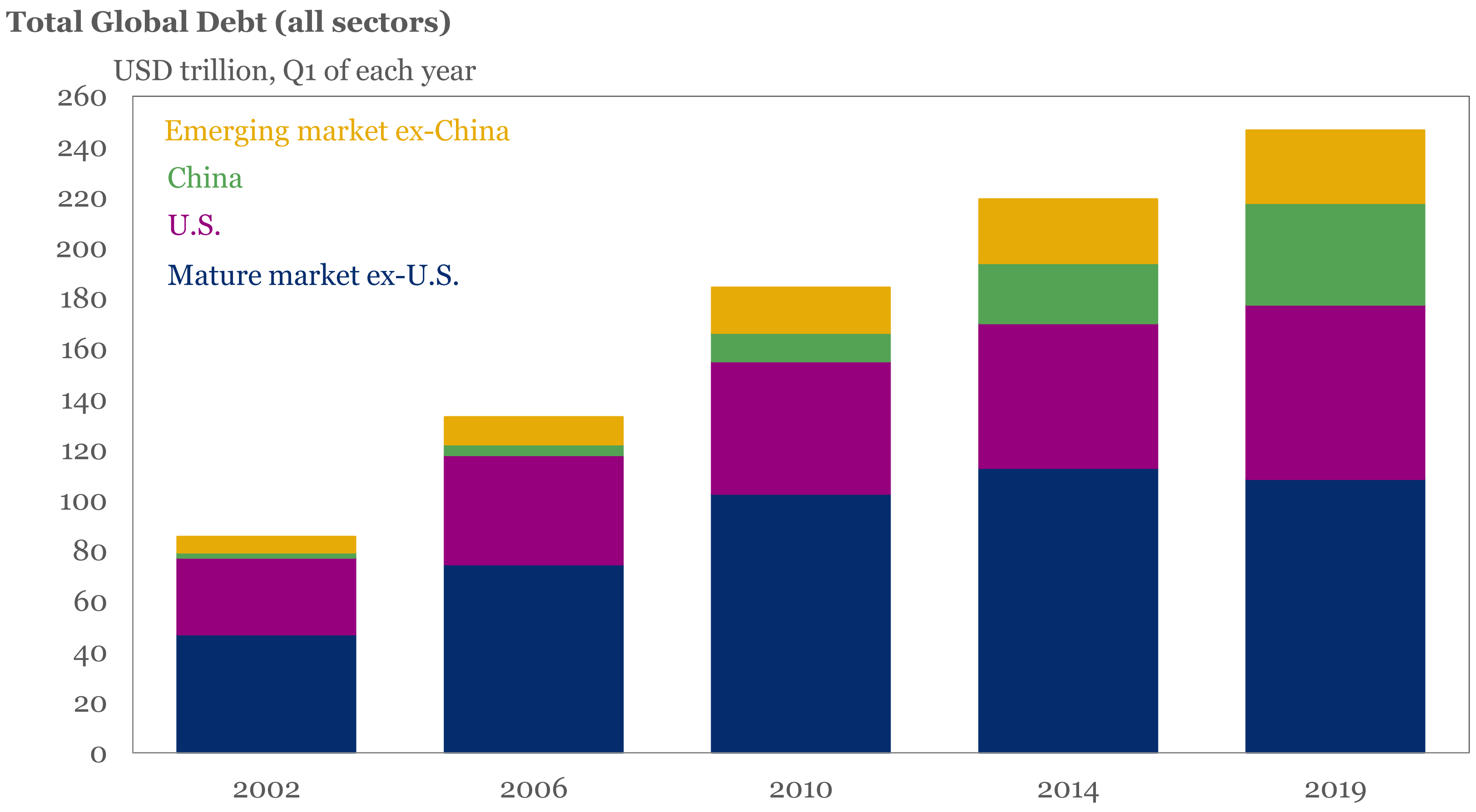


Slower growth may contribute to a renewed rise in debt ratios

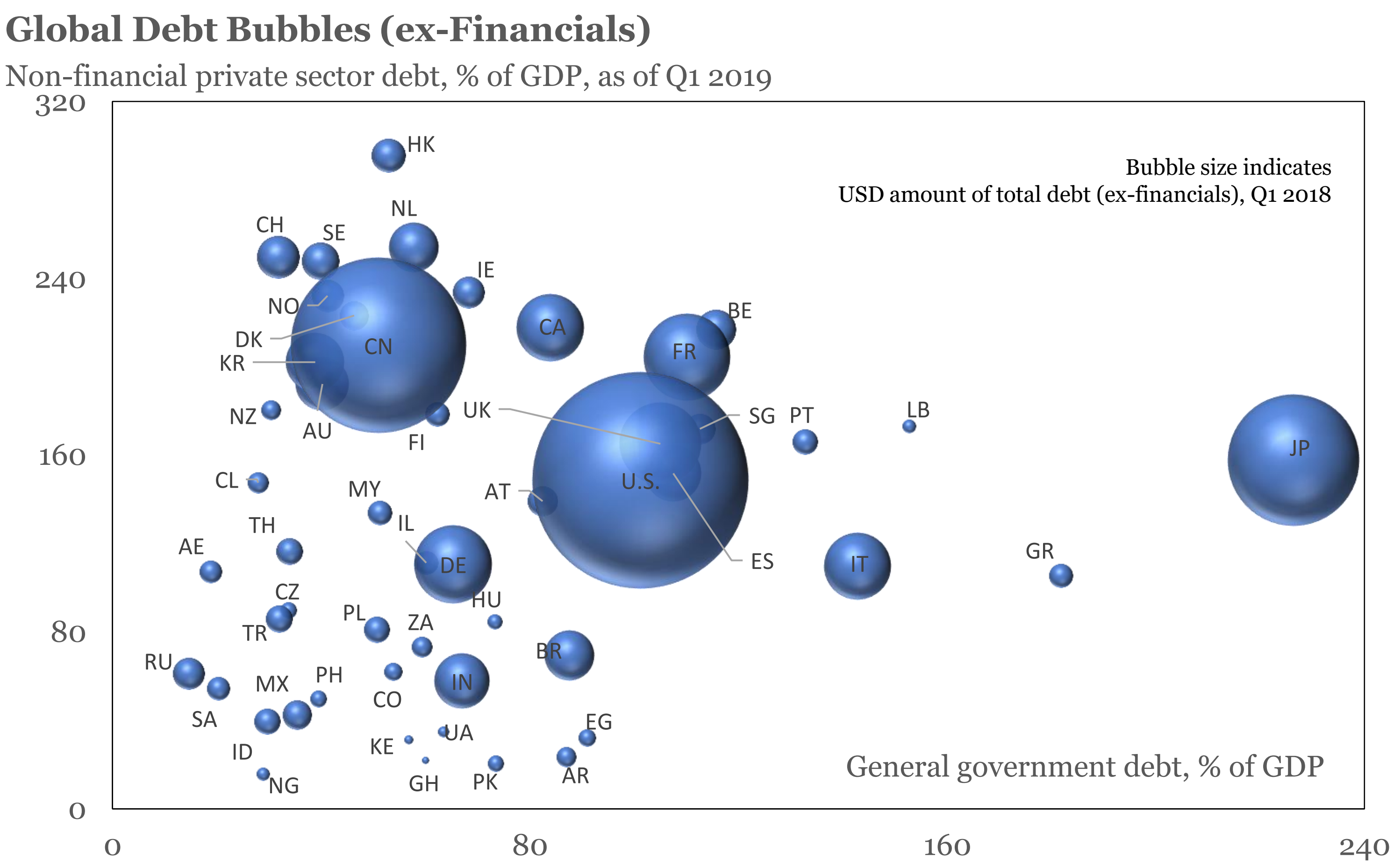




Elephants in the room: U.S. and China…



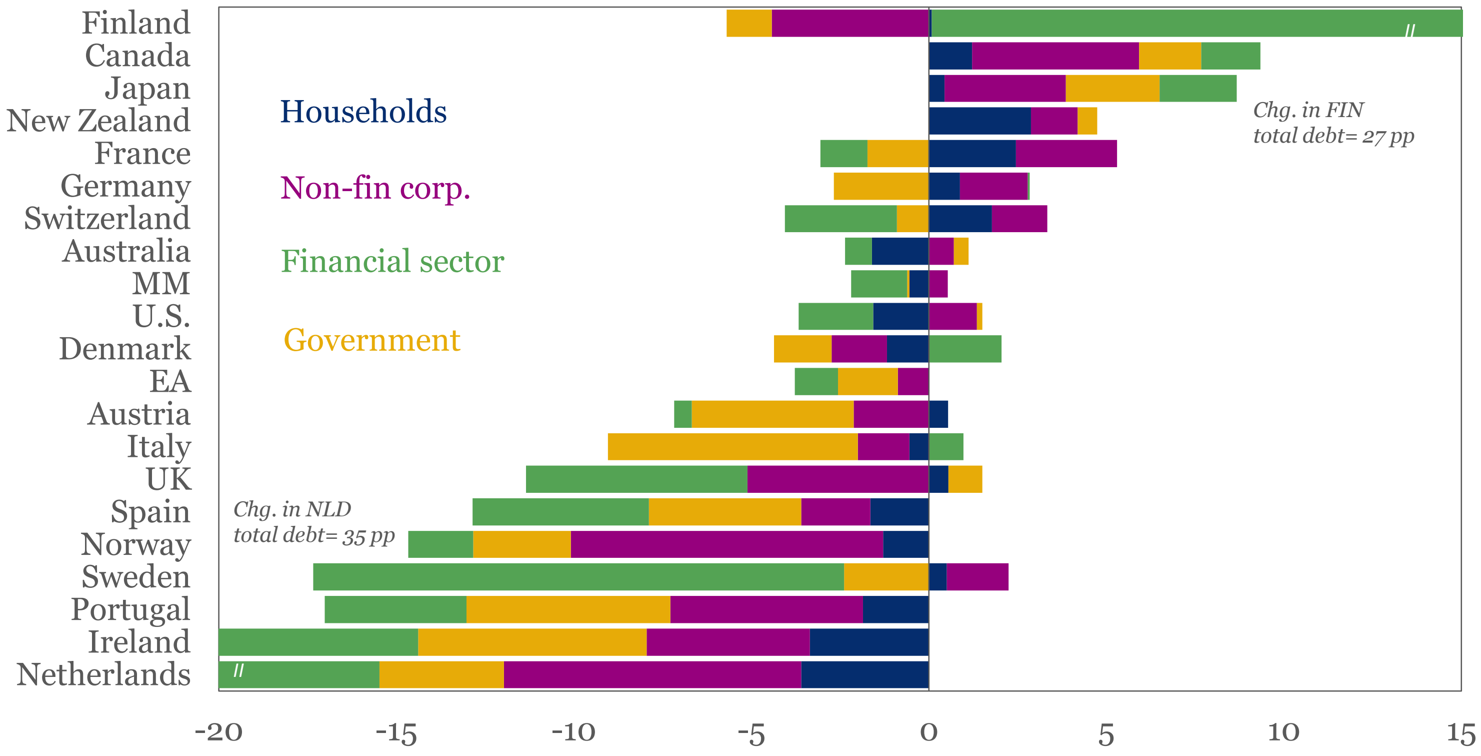
…but Japan, Italy and France also bear watching



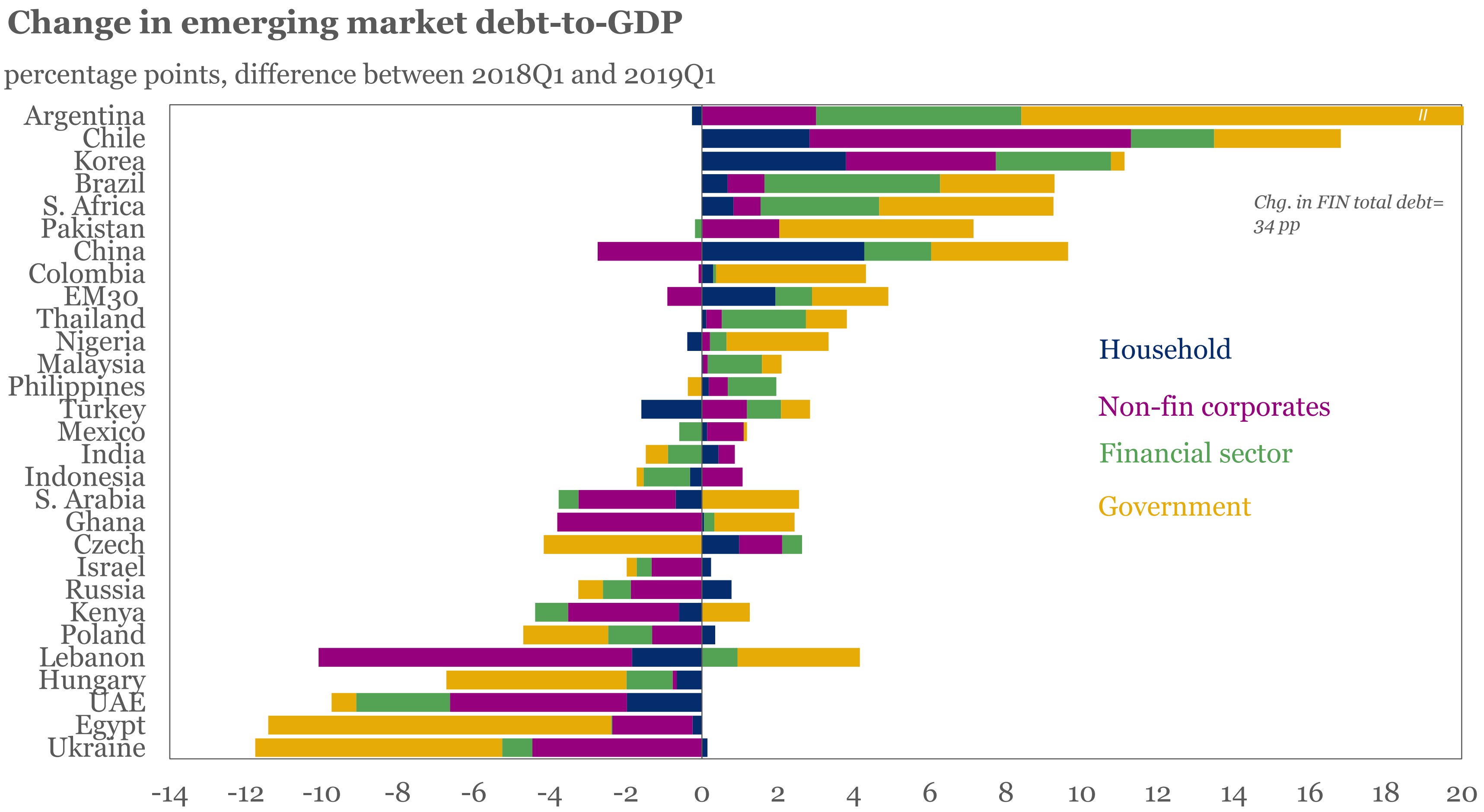
Many mature economies have seen debt ratios fall over the past year (notably in EU), but others still taking on more debt

Change in mature market debt-to-GDP

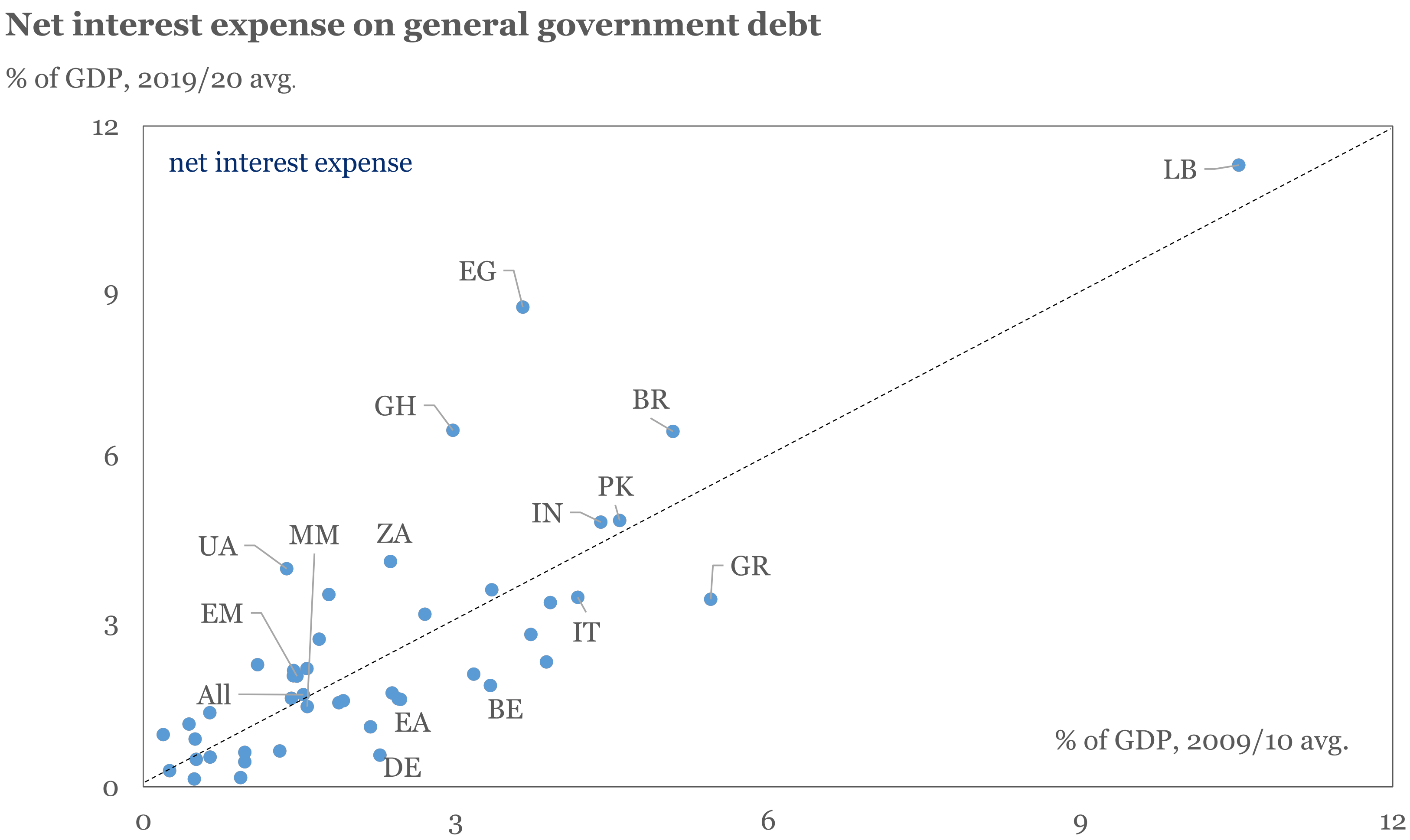
percentage points, difference between 2018Q1 and 2019Q1



EM debt to GDP ratios on the rise in many Latin American countries; same for Korea, South Africa and Pakistan

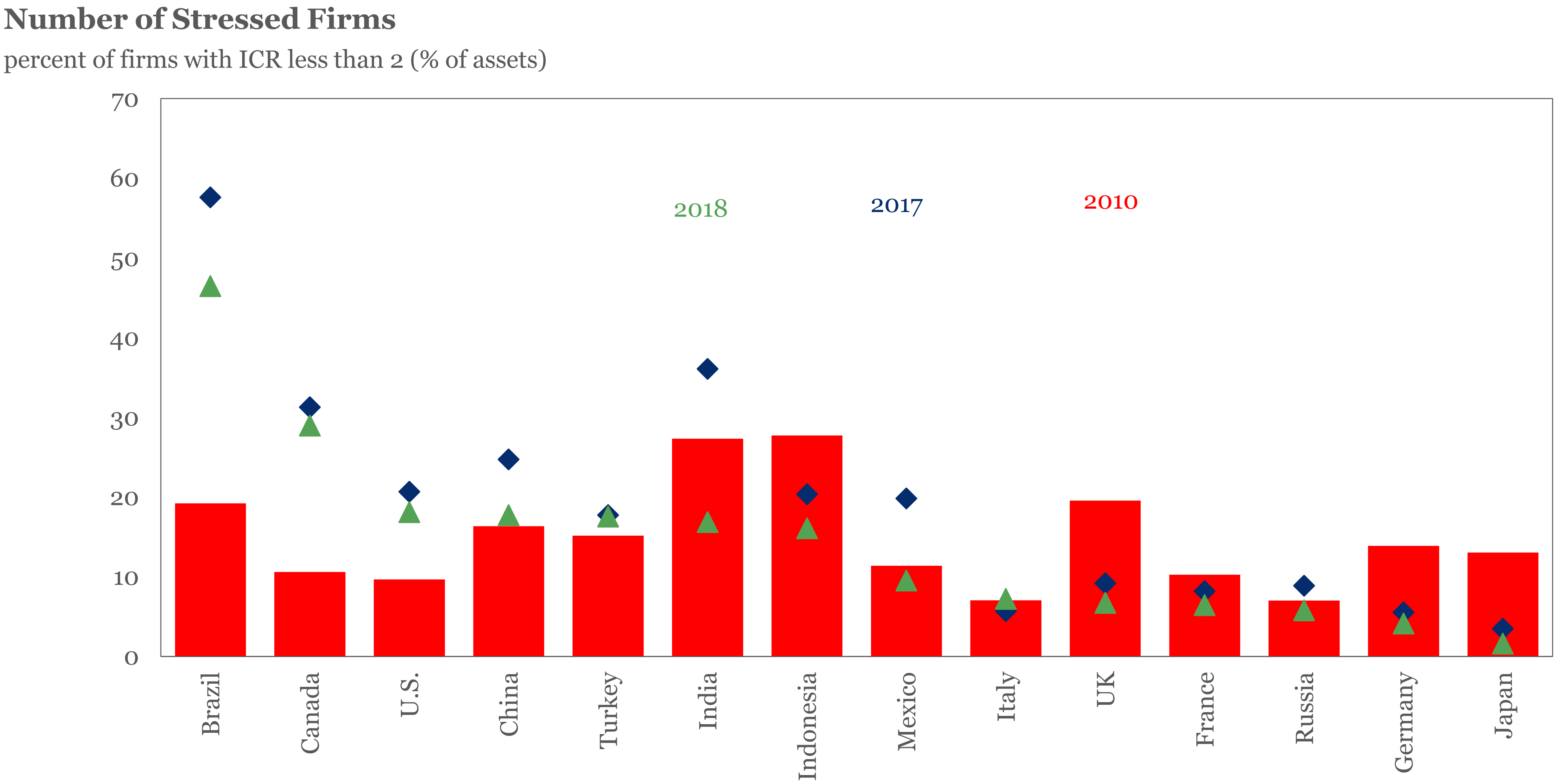


Higher debt levels have led to significantly higher debt service costs for many emerging markets

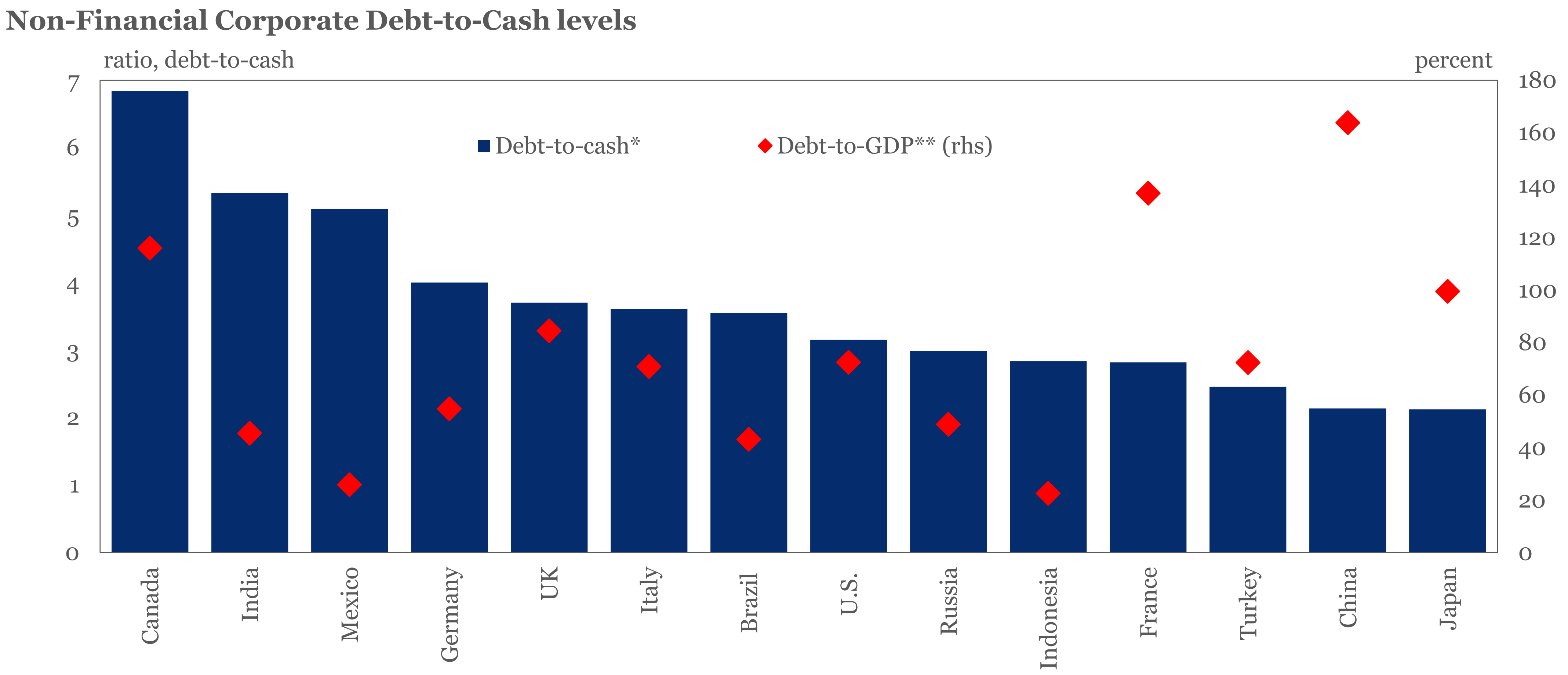


Source: IMF, IIF staff estimates

As debt levels grow, a rising number of "zombie firms" in many countries can't cover interest expense from current earnings



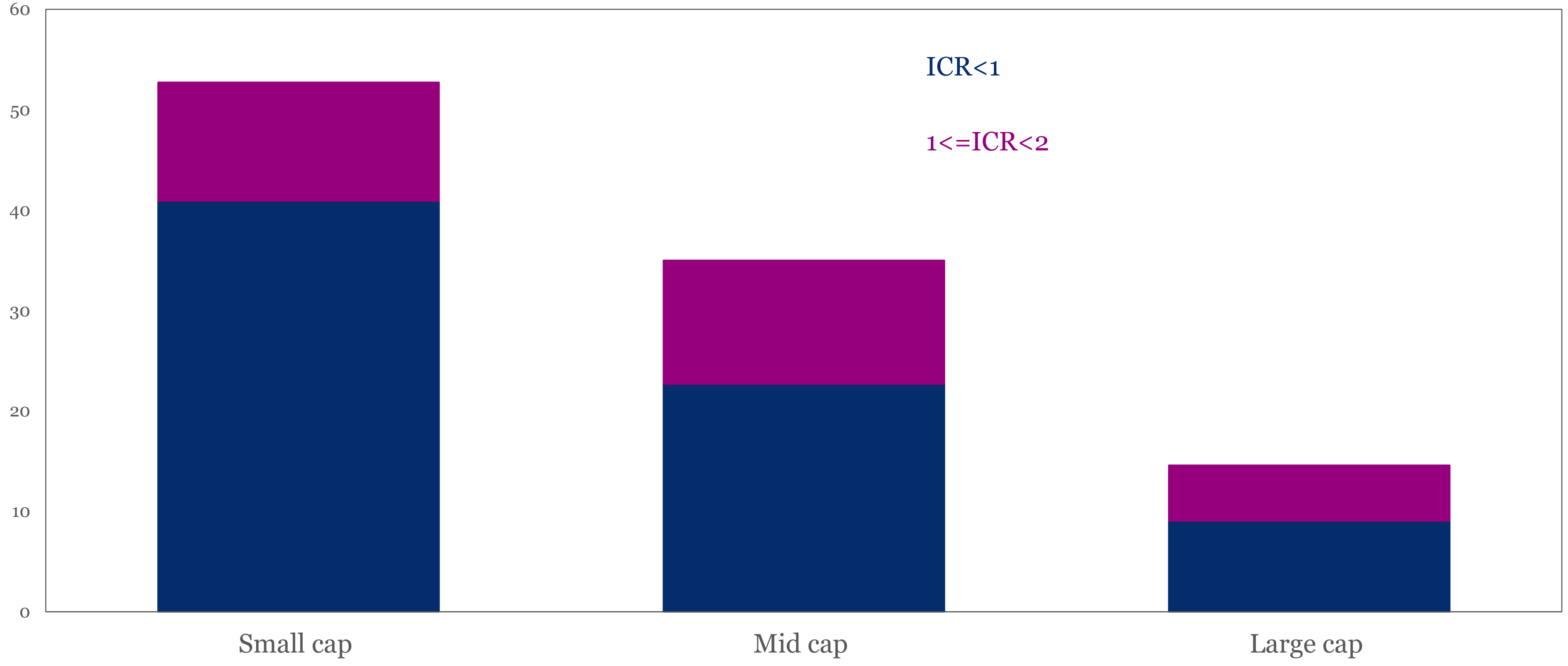
High cash holdings provide a cushion for the corporate sector in some countries—notably China, Japan



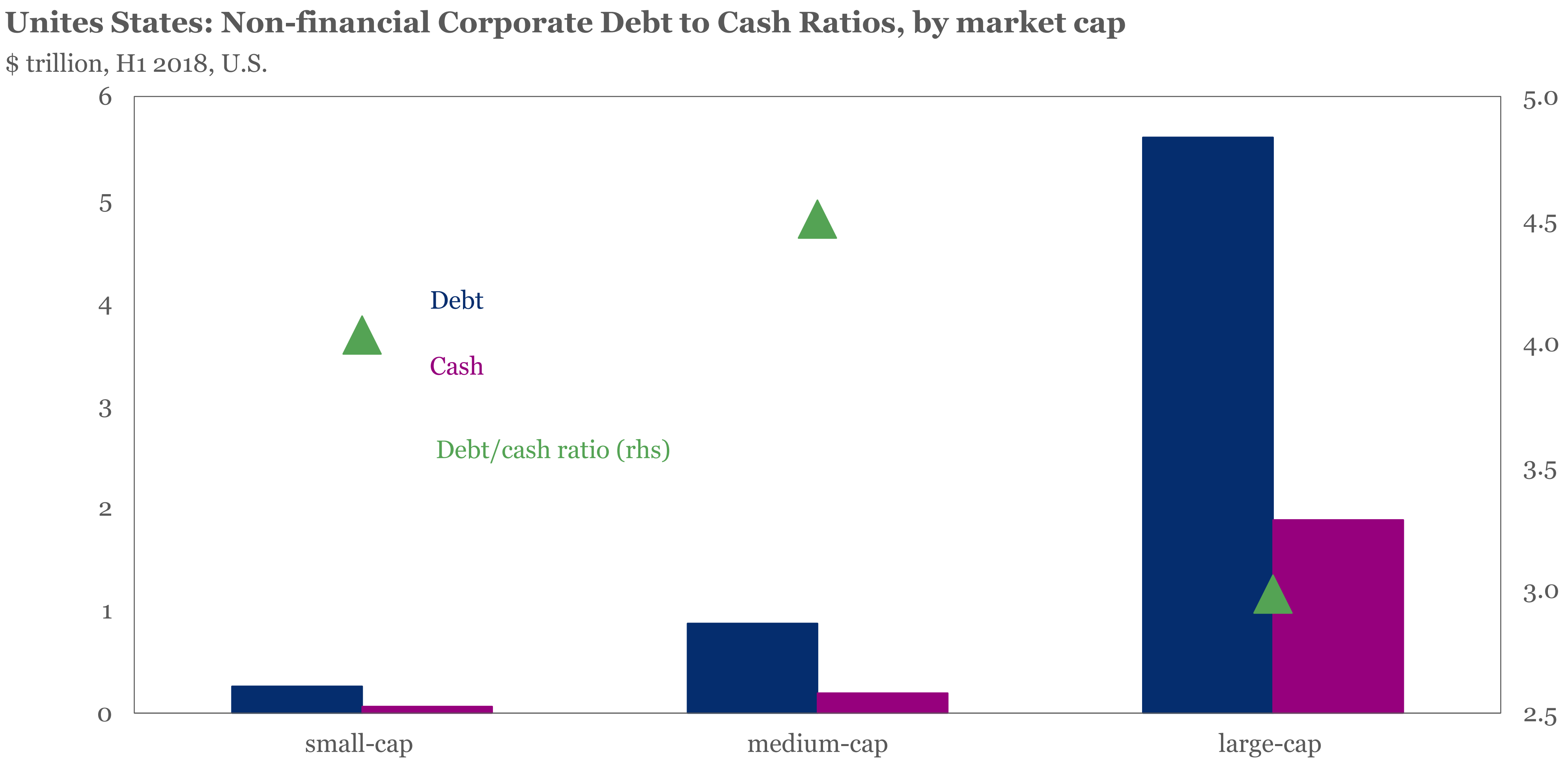
For many countries, including the U.S., a significant percentage of small firms are facing debt-related stress

United States – Distribution of Stressed Firms

percent of "risky" firms (% of each cap's total assets), ICR = Interest-Coverage-Ratio



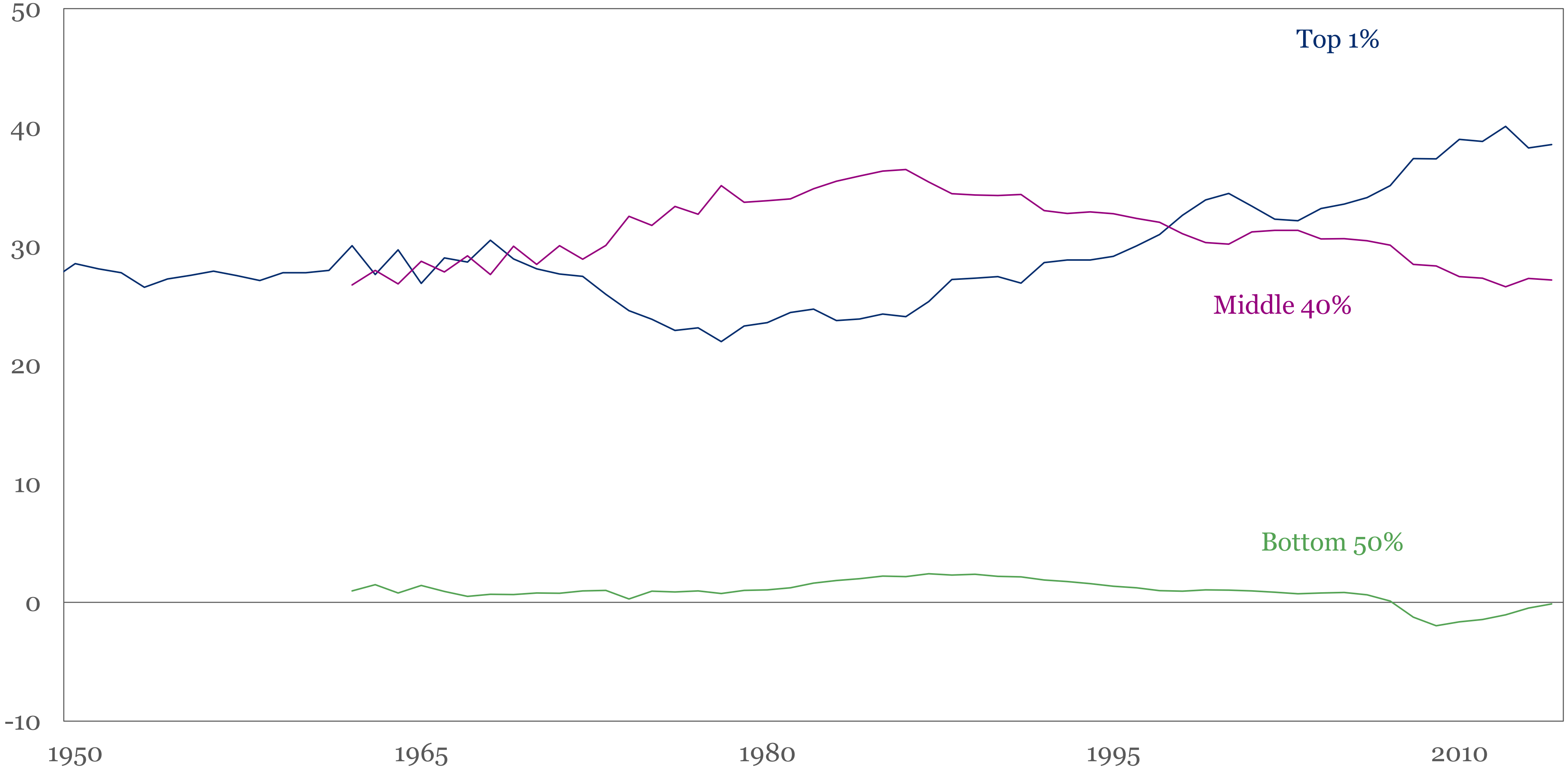
U.S. small- and medium-sized firms have much higher debt-to-cash ratios than do large-cap firms



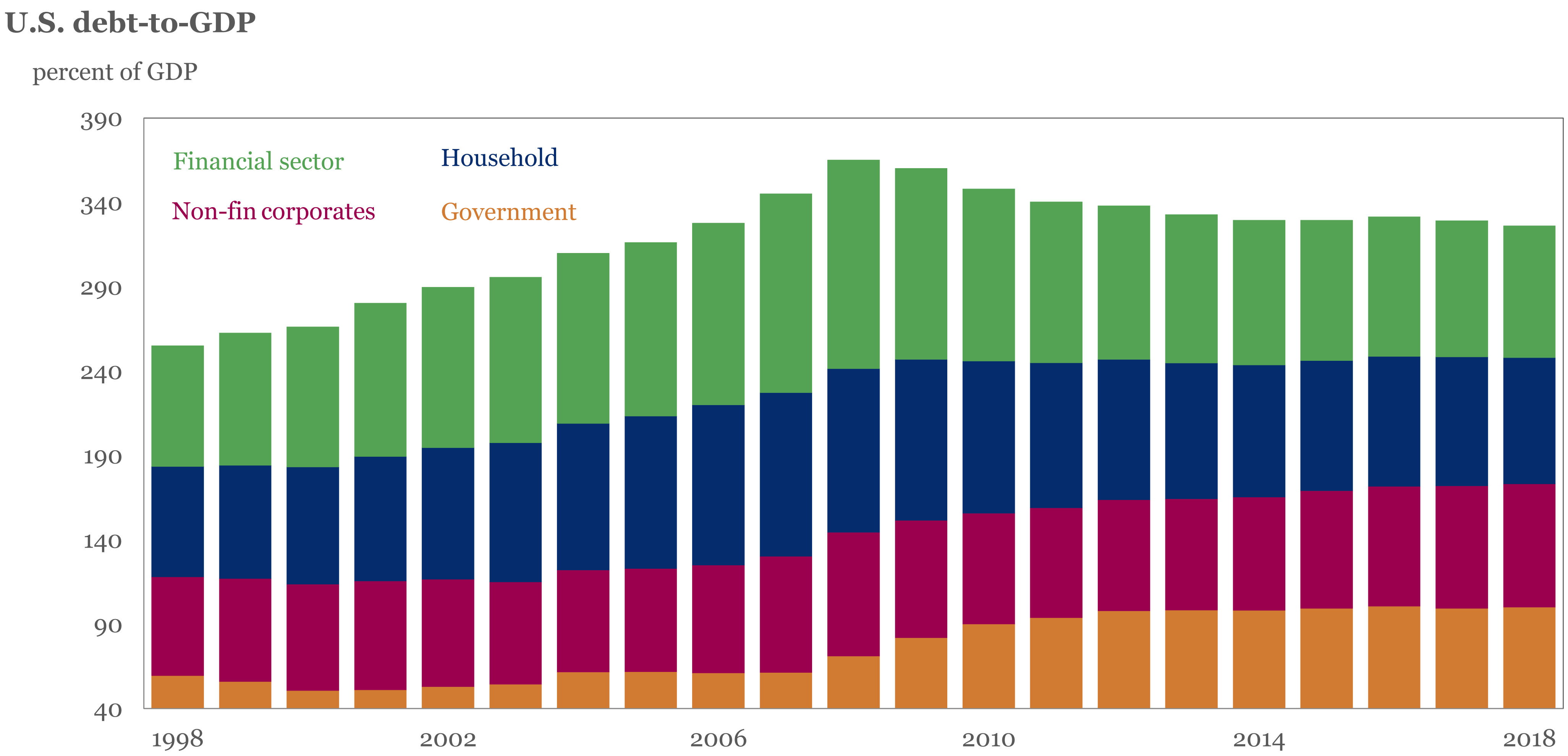
Many Americans are living paycheck to paycheck

The bottom 50% of Americans have negative net personal wealth

percent of total personal wealth, by wealth quantile



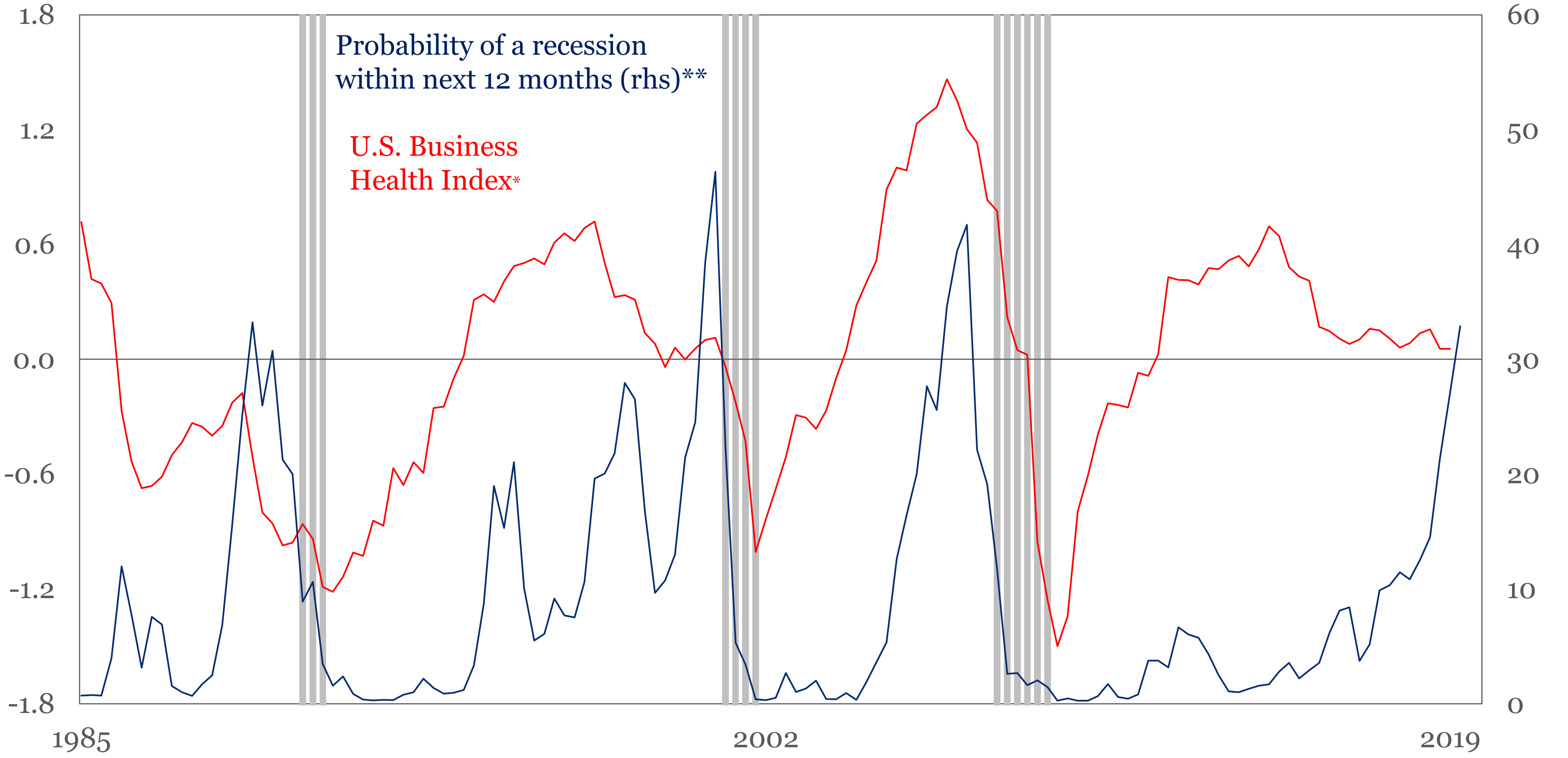
U.S. corporate debt hit a record high in Q1 2019



Ghost of recessions past – high U.S. corporate debt levels

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

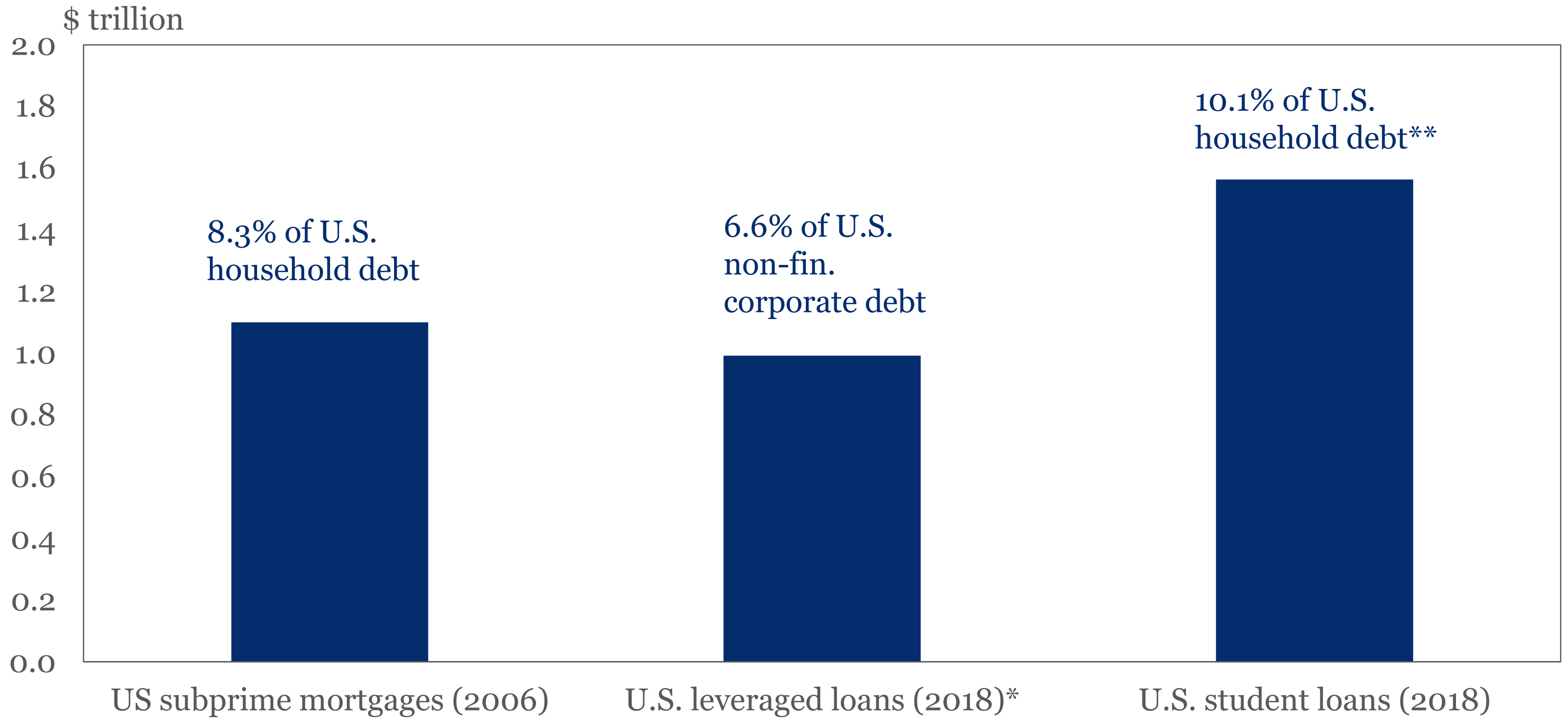
index, shaded area show recessionary periods



*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*

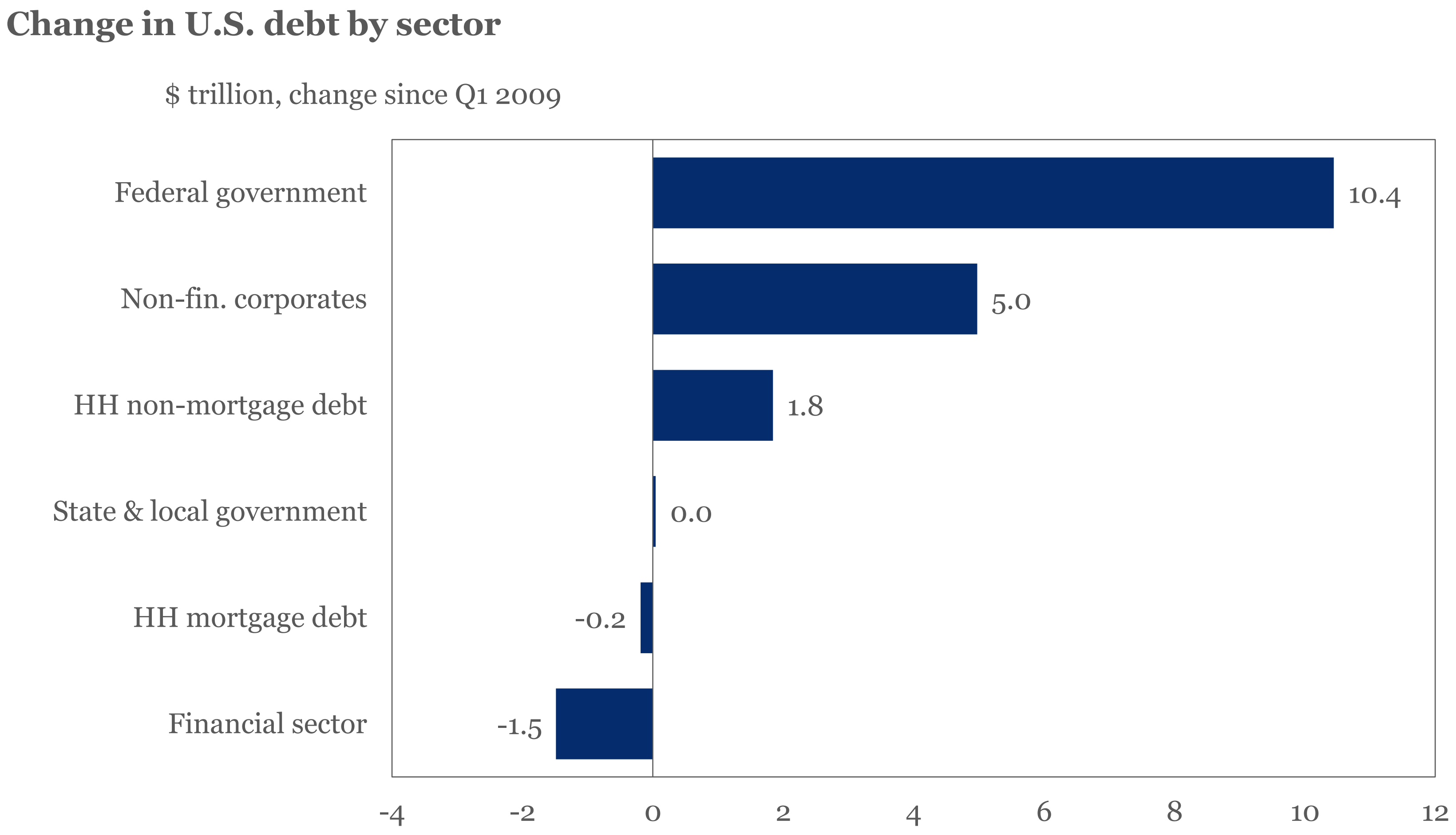
Sharp rise in U.S. leveraged loans and student debt—reminiscent of subprime loans before the financial crisis

Buildup in leveraged loans and student loans—on a par with subprime loans

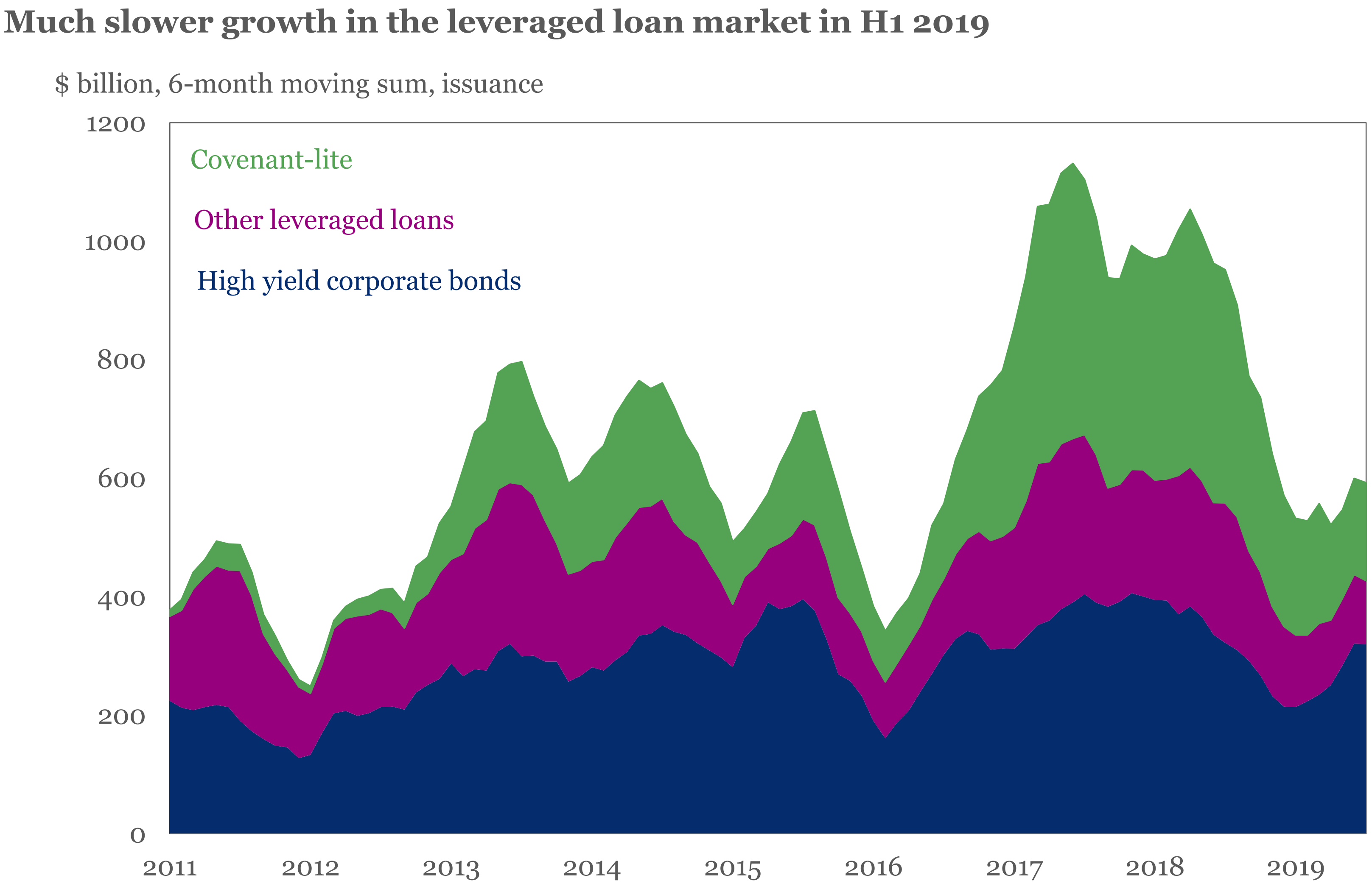


**Excludes leveraged loans for financial corporates*
***Over 90% of these are guaranteed by U.S. Department of Education*

Persistent rise in U.S. federal debt since 2009



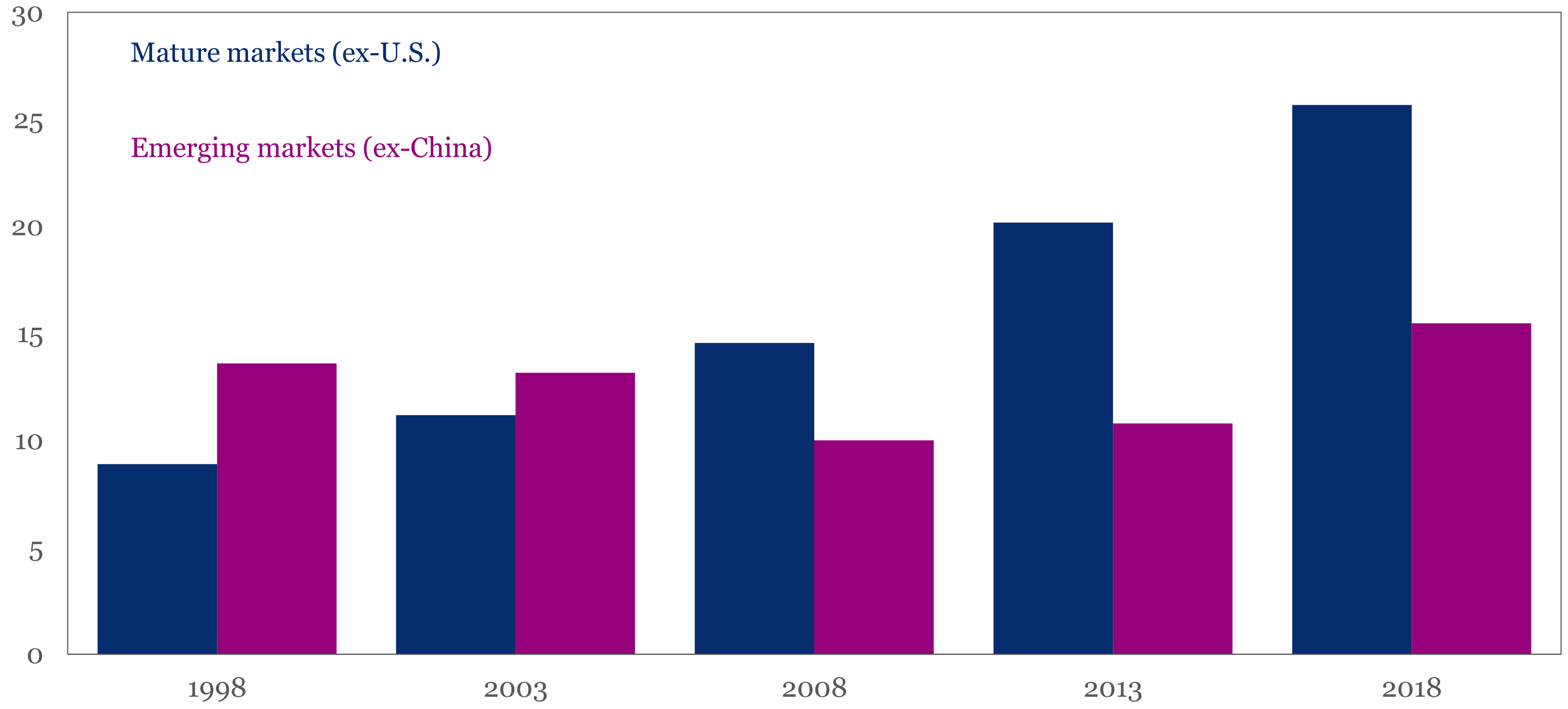
…though covenant-lite issuance saw a big drop in early 2019



USD-denominated debt is on the rise

Dollarization is a global phenomenon

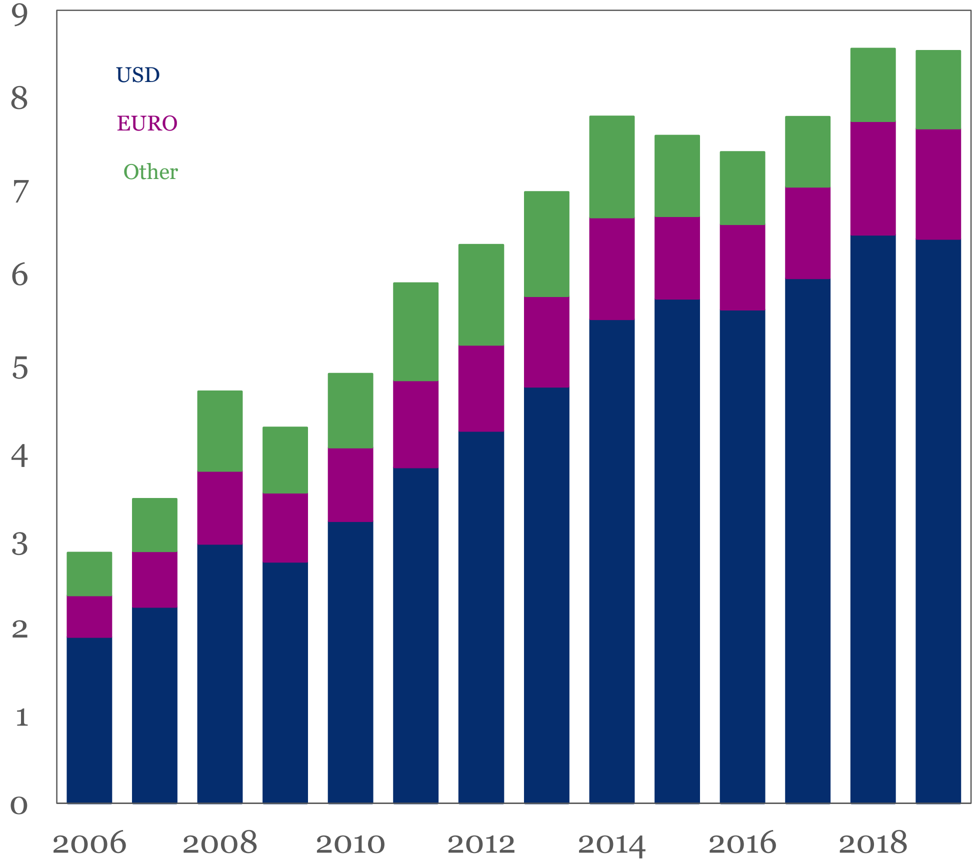
percent of GDP, USD-denominated debt of non-bank borrowers



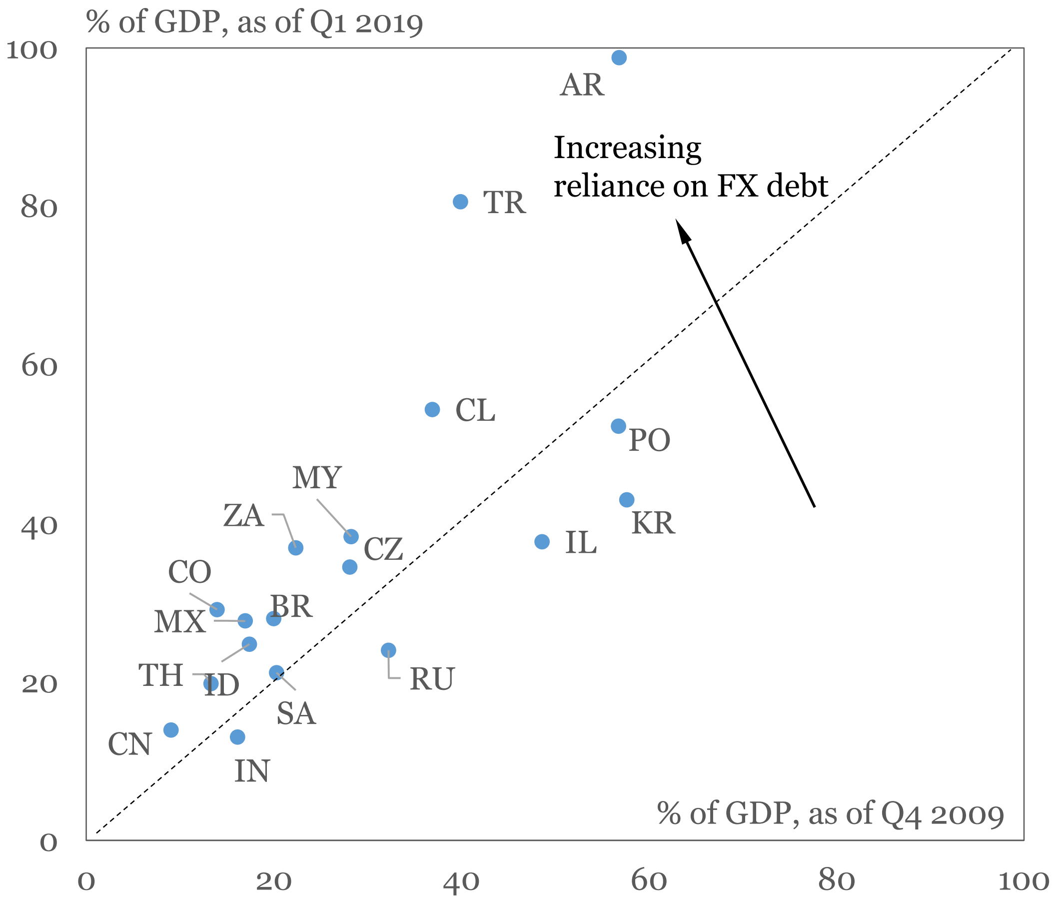
The usual suspects: Argentina and Turkey

FX-Denominated Total Debt

$ trillion

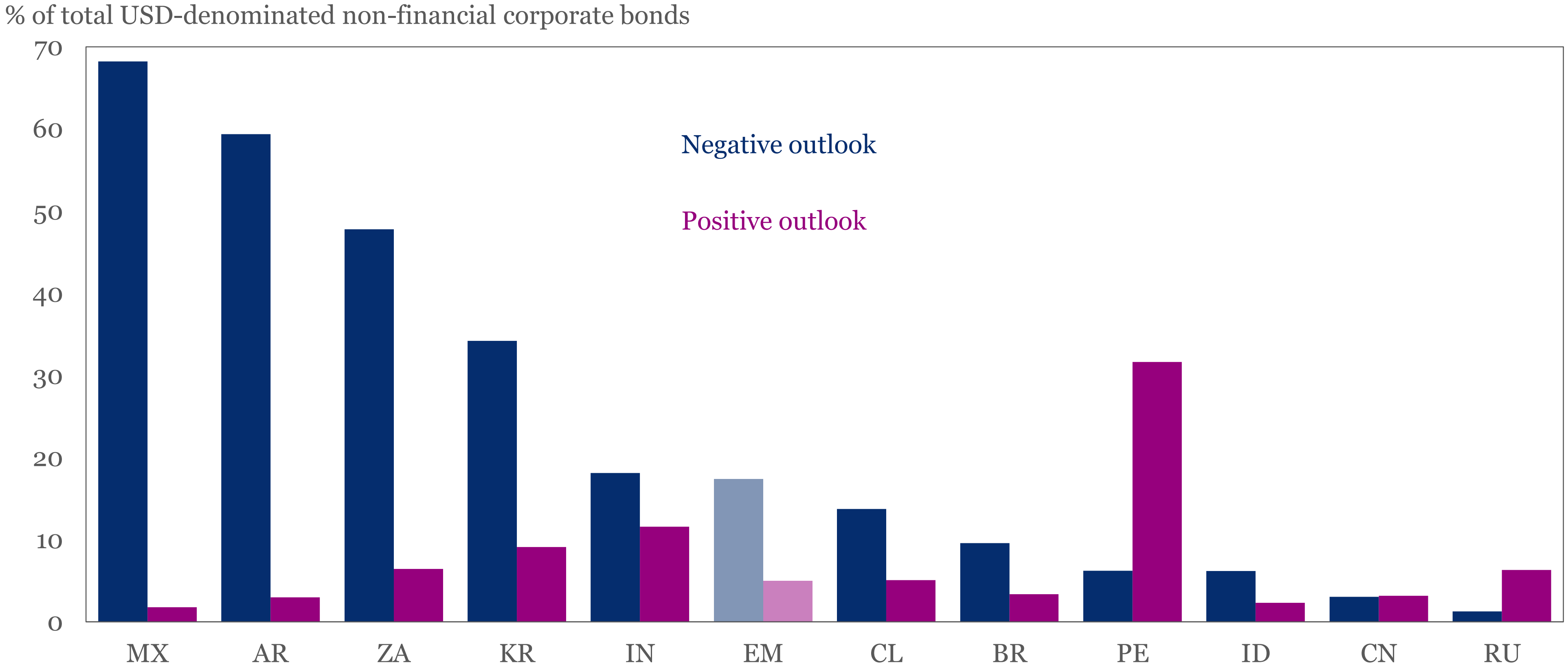


FX-denominated debt-to-GDP

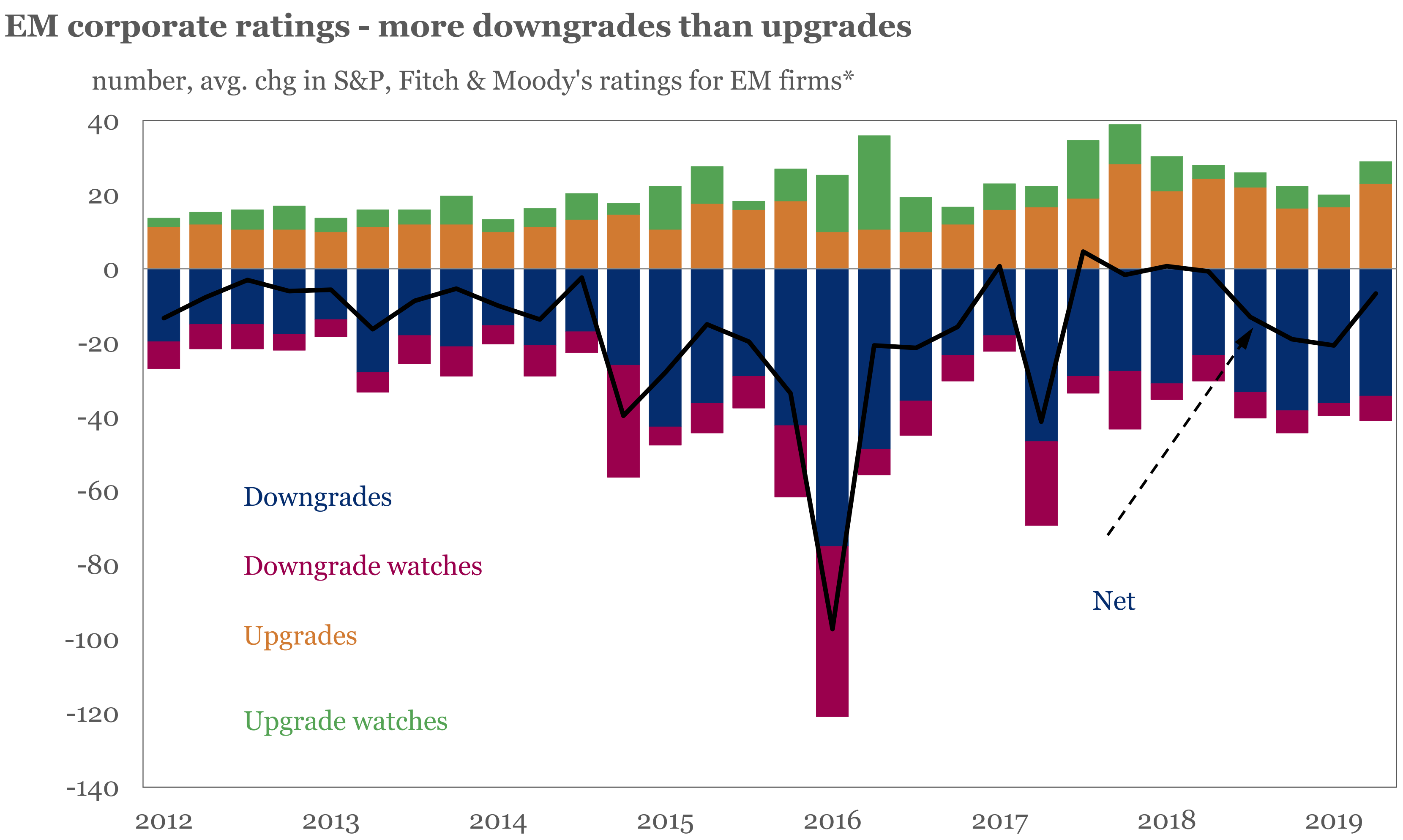


Mexico, South Africa have a high proportion of USD corporate bonds on negative outlook; stronger USD would hurt

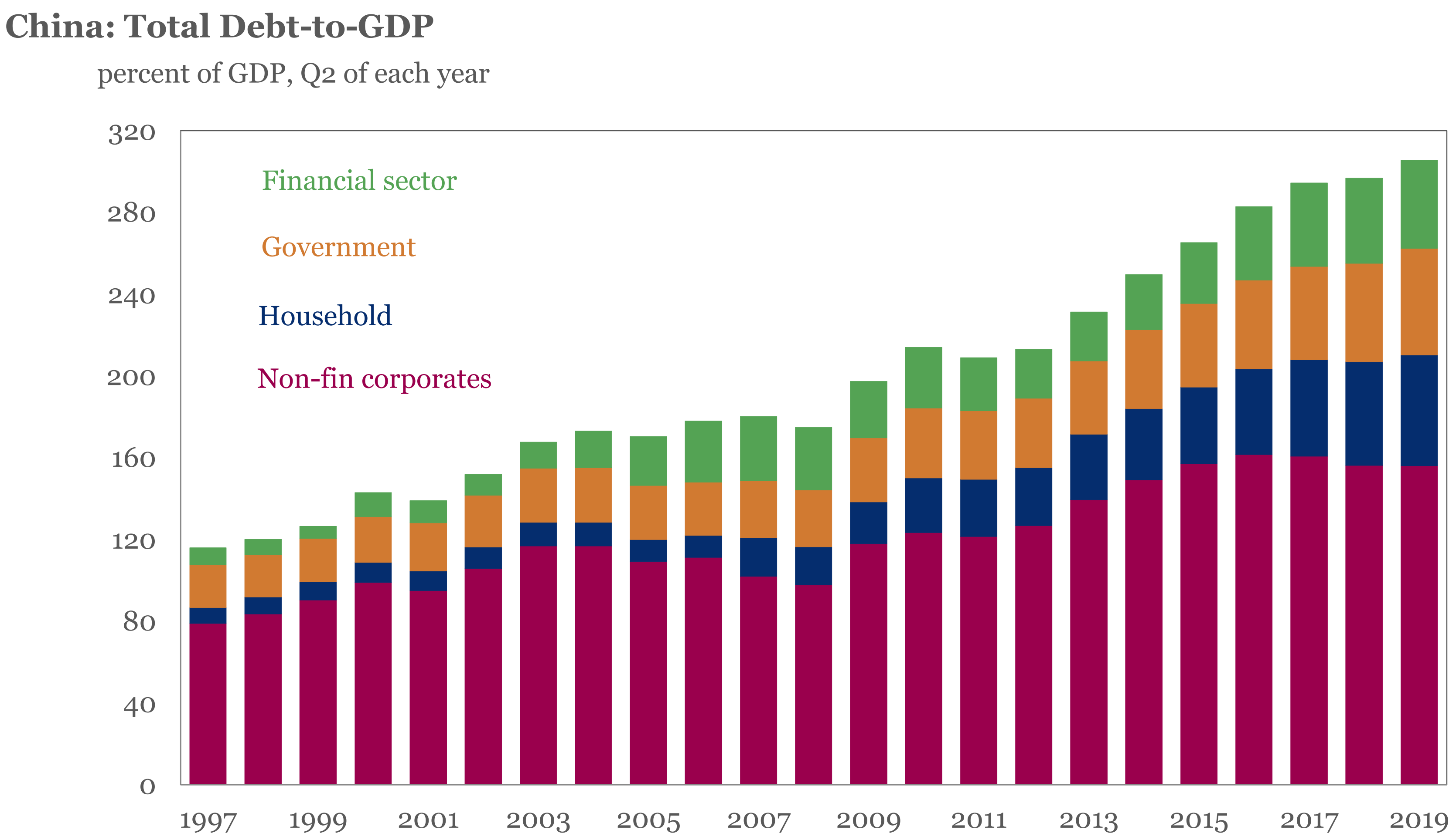
A dollar rally would be particularly challenging for the EM USD corporate bond market



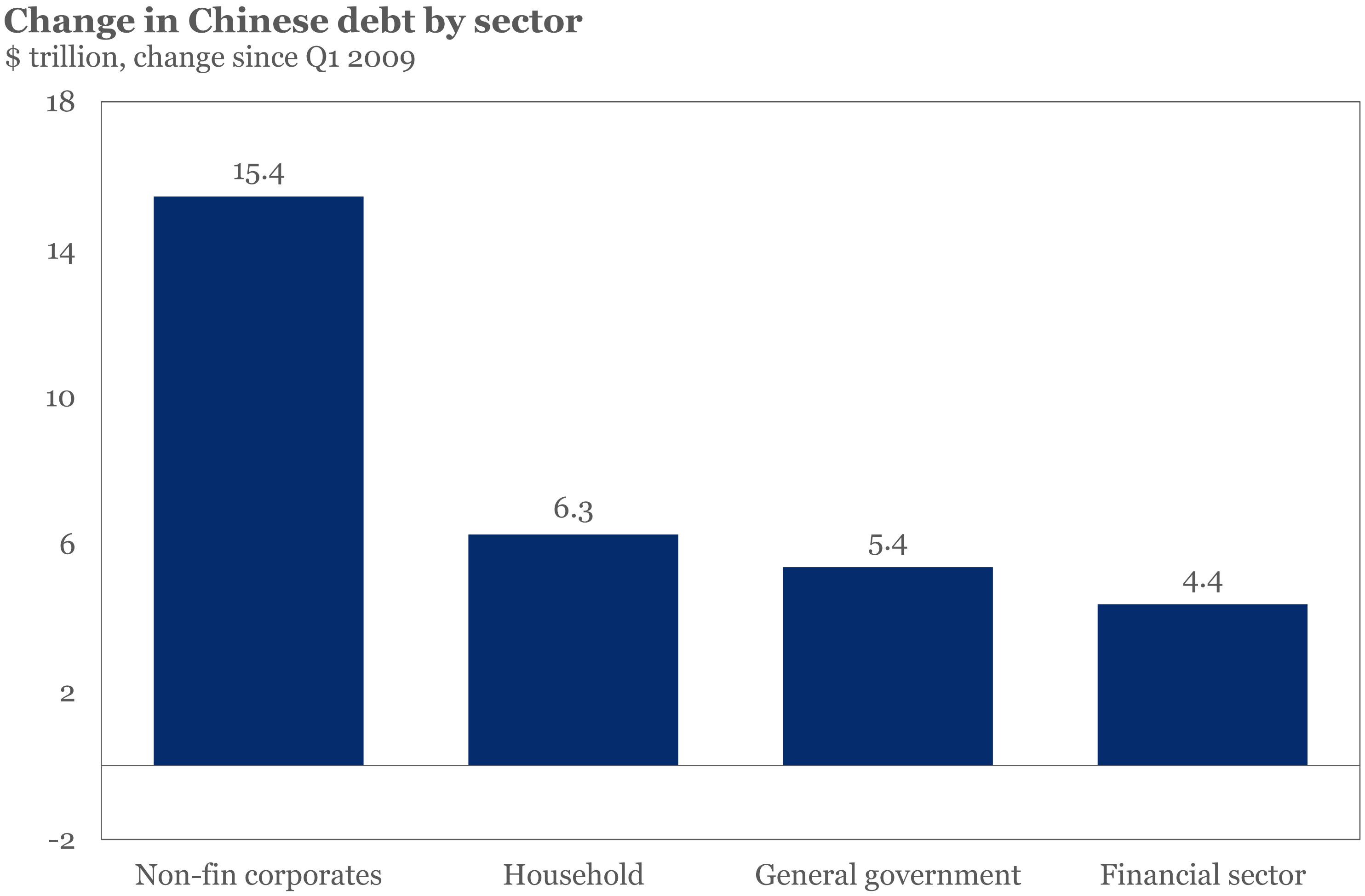
Deterioration in EM corporate credit outlook in recent quarters



China's total debt now surpasses 300% of GDP…



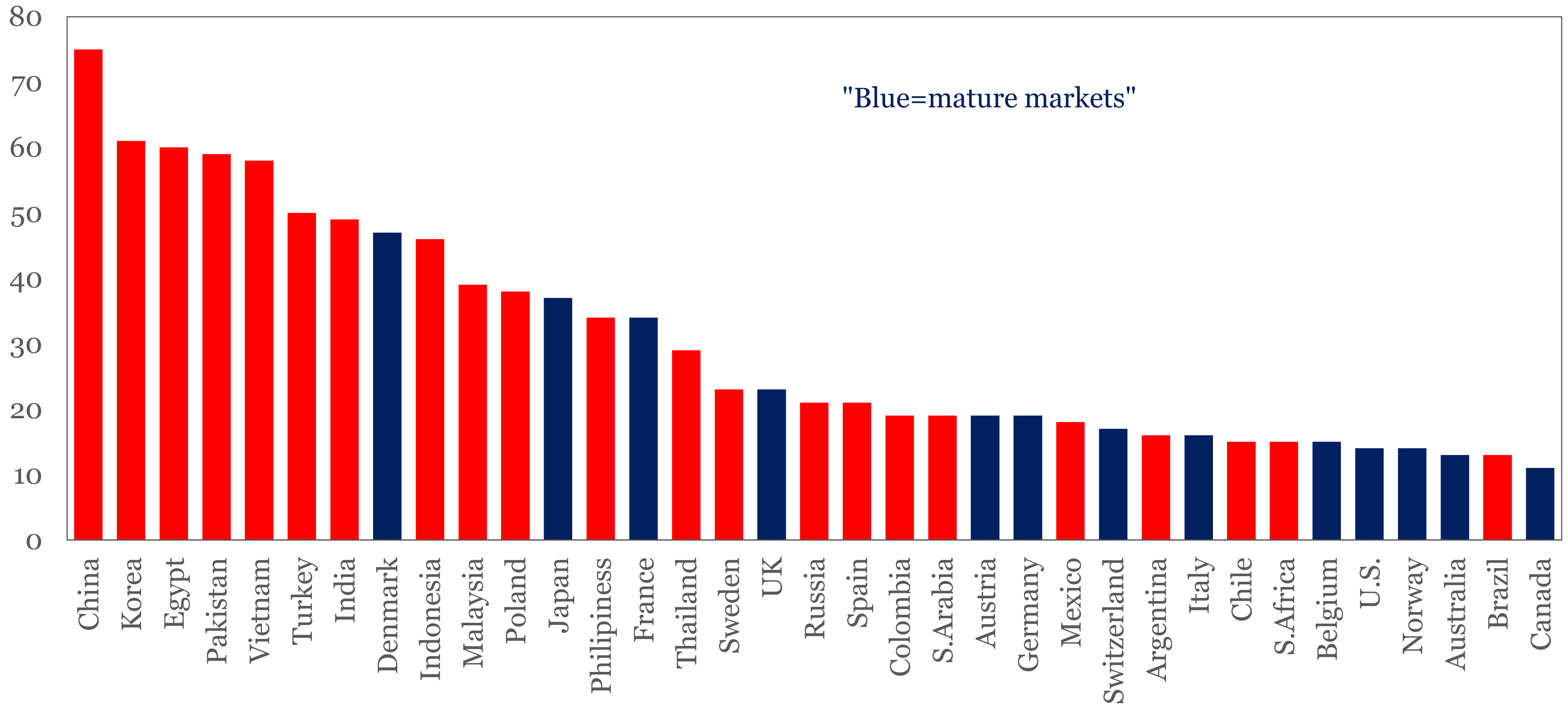
…largely driven by the debt of non-financial firms (mostly state-owned enterprises)



Reliance on short-term debt is high across emerging markets

Emerging market firms face high short-term refinancing needs

percent, short-term debt as a share of total debt, excl. financials



EM refinancing needs will remain high in 2020-21