Global Debt Monitor

Chipping away at the mountain?

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- Total global debt fell by $1.7 trillion to $289 trillion ($221 trillion ex-financials) in Q1 2021–nearly all in mature markets.
- However, total EM debt edged higher in Q1 2021 and is up some $11 trillion since end-2019—to $86 trillion (246% of GDP).
- With EM government debt levels up 15% since end-2019 and revenues hit by the pandemic, debt service is challenging for many.
- Growing investor focus on climate resilience could put upward pressure on borrowing costs for vulnerable EM sovereigns.
- We have revised our historical debt series for EM economies to improve comparability of estimates with mature markets

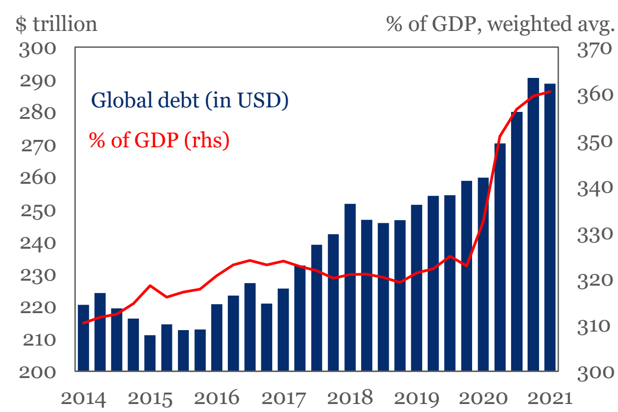
Slight decline in the global debt pile… Global debt declined by $1.7 trillion to some $289 trillion in Q1 2021—the first decline in 10 quarters. The drop was entirely driven by mature market economies, where total debt dropped $2.3 trillion to below $203 trillion. However, debt in emerging markets rose slightly in Q1 (+$0.6 trillion) to a fresh record high of over $86 trillion (though this was a significantly slower pace than that of the previous three quarters). And despite the Q1 dip, total global debt is still up $30 trillion (12%) since end-2019, now standing at over $288 trillion (Chart 1). Mature markets accounted for nearly two-thirds of the rise.

…but global debt-to-GDP still hovering near all-time highs: Despite the slight drop in total debt, debt *ratios* continued to increase in Q1 as economic activity remained below pre-pandemic levels in many countries. However, the pace has slowed dramatically: after a jump of over 36 percentage points in 2020, global debt/GDP rose only one percentage point in Q1 2021, to just over 360% of GDP. New borrowing has slowed: with global bond issuance now back below pre-COVID levels, debt ratios should dip slightly this year given the projected recovery in global economic activity.

Still rising—mature market government debt, EM private sector debt: In mature markets, the financial sector accounted for nearly half of the decline in debt levels in Q1 2021, with household and non-financial corporate debt also declining slightly. In contrast, mature market government debt continued to increase, but at its slowest pace since Q4 2018. Across emerging markets, the increase in debt was driven by private sector. With EM government debt broadly stable, the non-financial corporate and financial sectors have been the main drivers of the debt buildup.

Greece, Singapore, and Spain have seen the sharpest *increases* in debt-to-GDP ratios (ex-financial sector) since the onset of the pandemic, though the pace slowed in Q1 2021 (Chart 2). Denmark, Slovenia, Estonia, Finland, Lithuania, and the U.S. were the only mature market economies recording a decline in debt ratios (ex-financials) in Q1. Government spending was the main driver of the overall rise in mature market debt ratios in Q1, increasing the most in Slovakia, Greece, Cyprus, Italy, and Spain.

Chart 1: Tentative signs of stabilization in global debt?



Source: IIF, BIS, IMF, National sources

Table 1: Sectoral Indebtedness*

$ trillion	Households		Non-financial corporates		Government		Financial sector		Total	
	Q1 2021	*Q1 2020*	*Q1 2021*	*Q1 2020*	*Q1 2021*	*Q1 2020*	*Q1 2021*	*Q1 2020*	*Q1 2021*	*Q1 2020*
Mature markets	37.0	34.5	47.4	44.0	63.3	53.1	54.9	53.5	202.5	185.1
Emerging markets	16.3	13.9	37.1	32.5	20.2	16.9	12.6	11.3	86.2	74.6
Global	53.3	48.4	84.6	76.5	83.4	70.0	67.5	64.7	288.7	259.7

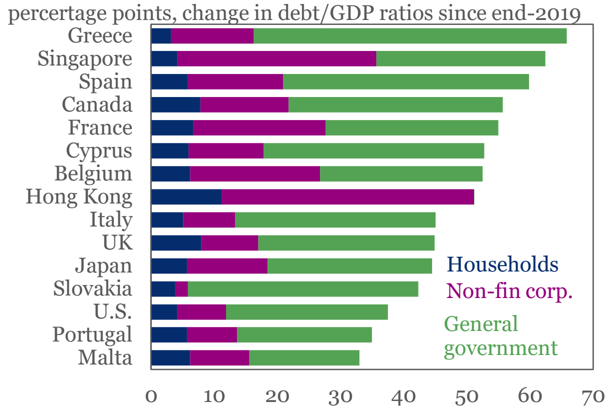
*Source: IIF, BIS, IMF, Haver, National Sources. *Household debt incorporates outstanding bank loans. Financial sector debt and non-financial corporate debt incorporate cross-border and domestic bank loans as well as onshore/offshore outstanding bonds. Government debt is extrapolated with IMF-WEO database.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

Eyes on EM government debt: While relatively stable in Q1 2021, EM government debt-to-GDP ratio has surged from 52% in Q4 2019 to near 60%. Certainly, the increase in government debt ratios has been sharper in mature markets, up from 110% of GDP to near 135% of GDP over same period. The slower rise in EM government debt is largely a reflection of fiscal constraints—emerging markets simply have relatively less fiscal capacity. However, many EM sovereigns have stepped up borrowing significantly, with the median EM government debt level now around 15% higher than in 2019. While less than the 22% median increase in mature market government debt, this is still a big jump (Chart 3). In our sample of EM countries, Brazil, and Argentina have been the only countries recording a decline in the USD value of government debt. Since the onset of the pandemic, the share of FX-denominated debt in total EM government debt (ex-China) has remained broadly stable at around 15%, though the reliance on FX has increased in Turkey and Chile.

Government revenues still under pressure in many emerging markets: While near-term sovereign debt vulnerabilities in major EM economies have eased back to pre-pandemic levels, government revenues remain under pressure due to continued lockdowns. With vaccination still relatively slow in many emerging markets, sovereigns with high borrowing needs risk having persistently high interest expenses relative to revenues and GDP (Chart 4). While global financing conditions remain strongly supportive, pandemic-related spending increases and revenue losses have made debt service a greater burden for many EMs including Philippines, South Africa, India, Indonesia, and Turkey (Chart 5). For many EMs, much-needed improvements in domestic tax regimes could help boost revenue capacity. However, heightened political and social tensions as the pandemic wears on could limit governments' willingness to deliver structural tax reforms, leaving many sovereigns more reliant on domestic and international debt markets.

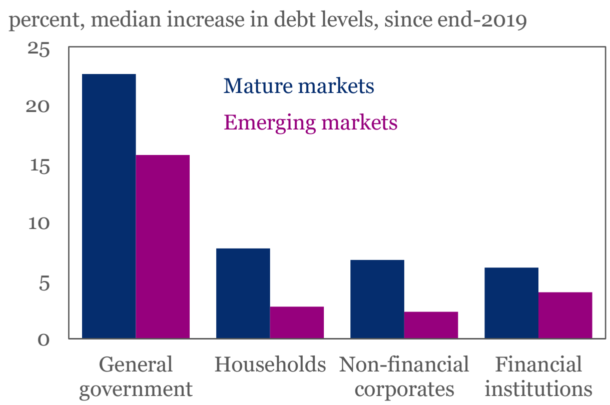
Planning for the future: With climate change top of the global policy agenda and the race to net-zero emissions accelerating—notably for international investors—emerging markets are under increasing pressure to accelerate the transition to a low-carbon economy. Failure to reduce reliance on carbon-intensive activities could add to upward pressure on EM government borrowing costs by reducing investor appetite for EM assets. For example, a 10 percent increase in climate vulnerability is estimated to increase EM sovereign spreads by 100 basis point on average (Chart 6). On the flip side, improvements in climate change resilience should help EM sovereigns to tap international debt markets at more favorable rates. Indeed, some estimates suggest that fiscal spending on ESG priorities could boost economic activity by 3 to 11 times more than conventional government spending (Chart 7). Higher growth and revenues would in turn help offset rising debt ratios, while supporting development of ESG bond markets to mobilize domestic and international resources towards green and sustainable investment projects in emerging markets—see our new Sustainable Debt Monitor.

Chart 2: Despite a slowdown in Q1 2021, there has been a sharp spike in debt ratios since end-2019



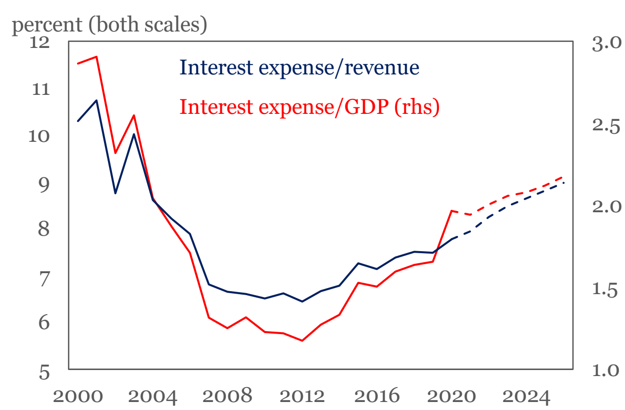
Source: IIF, National sources

Chart 3: Pandemic response has induced a sharp buildup in government debt across the globe since end-2019



Source: IIF, BIS, IMF, National sources

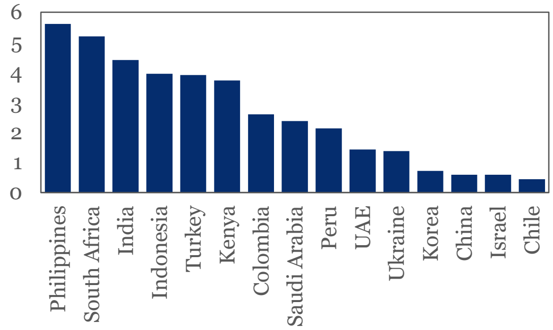
Chart 4: Government interest expenses remain on the rise in emerging markets



Source: IIF, IMF

Chart 5: Government interest expense/revenue ratios are projected to increase in many emerging markets

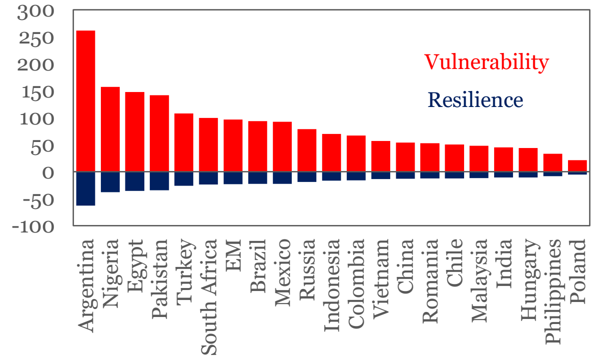
percentage points, projected chg. in gov. int. expense/revenue rat between 2021/22 and 2018/19



Source: IIF, IMF.

Chart 6: Climate vulnerability could mean higher borrowing costs

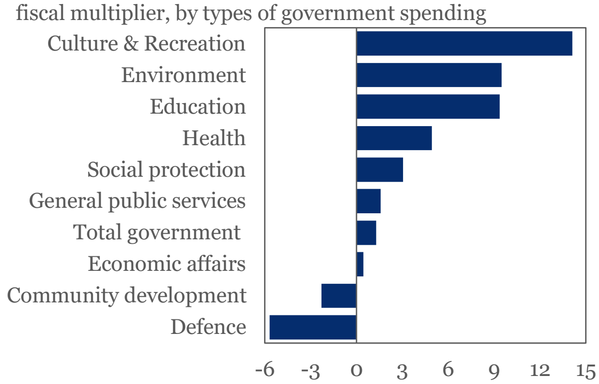
basis points, estimated change in country spreads against 10% rise (improvement) in climate change vulnerability (resilience)



Source: IIF, Bloomberg, IMF.

Chart 7: Government spending on ESG priorities has been associated with a bigger "multiplier effect"

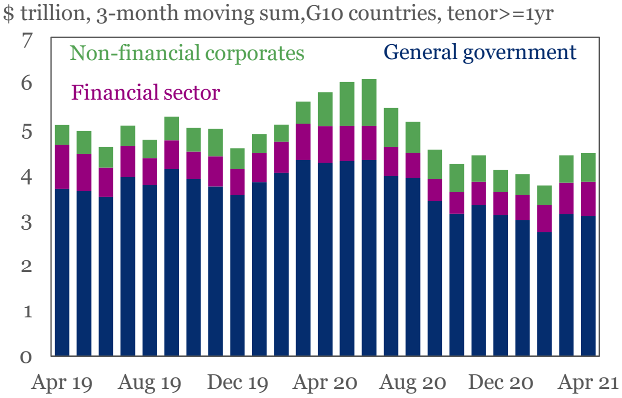
fiscal multiplier, by types of government spending



*Source: IIF, Reeves A, et al. (2013); *estimates cover 25 EU countries from 1995 to 2010*

Chart 8: As pandemic spending eases, G10 bond issuance is running below pre-COVID levels

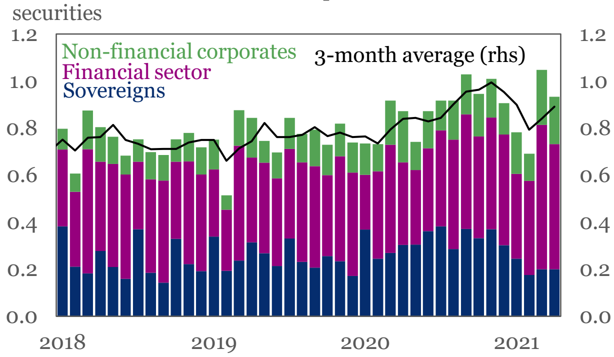
$ trillion, 3-month moving sum,G10 countries, tenor>=1yr



Source: IIF, Bloomberg.

Chart 9: EM debt issuance picks in March 2021

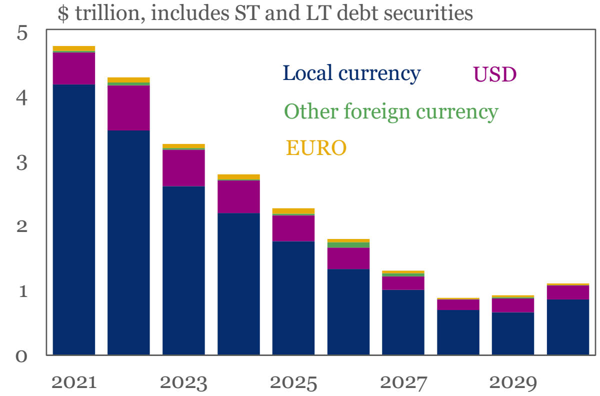
$ trillion, EM32 bonds, till end April-2021, includes ST securities



Source: IIF, Bloomberg.

Chart 10: About $9 trillion of EM bonds/loans come due through end-2022

$ trillion, includes ST and LT debt securities



Source: IIF, Bloomberg.

Table 2: Total Global Debt by Sector

% of GDP	Households		Non-financial corporates		Government		Financial Sector	
	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020
Global	**66.0**	**61.9**	**101.4**	**96.2**	**106.5**	**90.4**	**86.5**	**83.9**
Mature markets	**77.7**	**72.9**	**100.2**	**93.4**	**134.4**	**111.8**	**116.2**	**112.5**
U.S.	78.8	74.9	83.5	79.0	129.0	105.4	83.6	82.0
Euro Area	63.0	58.1	115.8	107.1	122.6	101.0	121.6	122.7
Japan	63.2	58.1	114.4	102.8	251.4	225.3	189.9	165.3
UK	91.9	84.7	81.2	73.4	133.3	108.7	200.6	196.1
Emerging markets	**46.3**	**43.6**	**103.4**	**100.9**	**59.9**	**54.5**	**36.7**	**35.9**
EM Asia	57.9	54.6	129.3	127.3	62.4	57.1	43.8	43.3
China	59.6	57.3	159.2	159.4	60.0	56.5	44.1	44.8
Hong Kong	92.3	82.8	264.9	238.6	66.4	65.8	170.9	158.0
India	39.0	35.2	56.7	53.7	84.2	72.2	3.6	4.1
Indonesia	17.7	17.0	22.5	23.7	41.0	32.4	8.3	8.5
Malaysia	77.1	68.0	73.9	68.7	62.9	54.3	29.6	30.3
Pakistan	2.9	2.7	14.0	14.1	87.3	86.0	1.2	1.6
Philippines	16.9	16.0	33.5	31.8	48.5	38.5	11.9	11.4
S. Korea	104.7	95.9	113.5	105.1	43.3	42.7	88.7	80.5
Singapore	55.6	50.8	155.3	126.7	152.3	129.0	192.3	188.3
Thailand	78.7	69.5	53.6	49.0	47.2	34.5	41.6	38.1
Vietnam	20.1	20.8	128.8	123.4	59.1	55.8	5.0	5.2
EM Europe	23.2	21.5	72.6	69.3	38.7	30.8	20.1	18.1
Czech Republic	34.4	31.8	56.2	56.0	43.4	34.7	45.2	40.1
Hungary	21.1	18.7	70.4	66.3	85.7	69.2	9.5	9.0
Poland	34.9	34.6	44.6	45.7	60.6	50.0	26.4	21.5
Russia	21.9	19.9	89.4	83.8	21.8	15.5	10.7	11.6
Turkey	17.8	15.6	71.5	68.2	43.6	35.6	30.5	24.9
Ukraine	4.9	5.6	19.3	22.8	60.0	56.2	8.5	11.2
EM Latam	26.4	24.6	43.9	41.7	67.9	65.4	30.0	29.1
Argentina	4.3	4.7	15.8	16.6	73.8	87.4	6.8	6.0
Brazil	36.8	32.7	53.9	48.0	92.7	85.8	48.8	45.5
Chile	45.3	48.0	117.2	115.6	33.9	33.4	51.1	51.5
Colombia	33.2	30.0	34.6	32.6	69.4	57.9	7.0	8.1
Mexico	16.5	16.3	26.1	29.2	39.3	38.6	15.6	17.7
Peru	16.3	16.0	53.6	44.3	35.4	28.6	14.5	13.0
AFME	22.8	20.8	49.1	44.5	54.9	46.3	15.7	14.8
Egypt	8.5	7.4	20.9	19.6	87.9	81.0	4.3	4.5
Ghana	2.4	2.9	17.6	18.0	74.7	64.3	4.0	4.2
Israel	44.0	41.9	72.3	67.7	73.4	60.2	11.2	11.2
Kenya	8.2	7.3	19.1	19.6	69.0	63.4	1.7	1.9
Lebanon	39.1	44.8	67.1	77.0	154.1	165.5	3.0	5.2
Nigeria	18.0	17.4	8.8	7.9	34.1	30.3	5.2	5.0
Saudi Arabia	15.1	12.1	59.9	49.0	32.1	24.5	4.7	4.0
South Africa	36.4	34.3	39.7	40.8	81.1	65.0	25.4	27.5
UAE	25.3	22.0	87.7	79.6	37.8	28.6	56.7	50.1

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 Q1-2021	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	153.2	6.0	5.0	0.7	59.4	0.6	0.4	0.2	39.1	5.0	3.9	0.5	59.6	0.0
Hong Kong	37.4	227.5	171.8	39.8	62.5	3.9	3.3	0.0	37.3	133.6	102.6	13.2	88.7	3.5
India	49.0	7.7	6.2	1.3	84.2	0.0	0.0	0.0	0.6	3.1	2.7	0.2	39.0	0.0
Indonesia	14.0	8.6	7.9	0.4	30.4	10.6	8.3	1.8	2.9	5.3	5.1	0.2	17.4	0.3
Malaysia	60.0	13.9	10.6	0.1	60.5	2.3	1.9	0.0	11.1	18.5	14.6	1.8	76.7	0.4
S. Korea	96.6	16.9	11.4	2.9	42.4	0.9	0.6	0.2	63.3	25.4	20.0	3.3	104.0	0.6
Singapore	90.8	64.5	52.9	7.4	152.3	0.0	0.0	0.0	48.3	144.0	106.7	17.6	43.3	12.2
Thailand	44.8	8.7	7.4	0.2	46.8	0.4	0.4	0.0	33.4	8.2	7.3	0.5	78.6	0.2
EM Europe														
Czech Republic	29.6	26.6	1.1	24.7	40.0	3.3	0.0	3.2	39.6	5.6	0.5	5.0	34.3	0.1
Hungary	38.9	31.5	4.2	27.2	68.0	17.7	5.3	11.7	3.8	5.6	1.7	4.0	21.0	0.1
Poland	30.1	14.5	0.7	13.7	44.8	15.9	2.0	13.4	17.4	9.0	1.7	3.1	24.2	10.7
Russia	68.0	21.4	8.8	11.1	17.8	4.0	3.5	0.5	6.7	4.0	3.4	0.3	21.8	0.1
Turkey	34.3	37.3	16.1	20.2	18.6	25.0	16.3	5.9	5.6	24.9	18.9	5.9	17.7	0.0
Ukraine	10.7	8.6	6.6	1.9	25.0	35.0	25.4	9.6	0.8	7.7	3.9	3.8	4.2	0.7
EM Latam														
Argentina	7.5	8.3	8.0	0.3	19.4	54.4	40.9	1.8	2.1	4.7	0.5	0.1	4.2	0.1
Brazil	33.4	20.5	18.2	1.8	86.6	6.1	4.7	1.4	37.8	11.0	10.3	0.4	36.8	0.0
Chile	81.5	35.7	34.3	0.8	24.9	8.9	5.1	3.9	43.2	7.9	6.2	0.2	43.7	1.6
Colombia	21.6	13.0	11.4	0.8	46.6	22.8	21.7	1.1	0.8	6.3	6.2	0.0	33.1	0.1
Mexico	7.8	18.3	14.6	2.6	31.3	8.0	6.1	1.5	12.0	3.6	2.6	0.5	16.5	0.0
AFME														
Israel	48.1	24.2	16.5	6.3	60.5	12.9	8.4	4.4	8.8	2.4	2.2	0.2	43.8	0.2
S. Arabia	47.5	12.4	12.0	0.2	20.7	11.4	11.4	0.0	1.4	3.4	3.1	0.1	15.1	0.0
S. Africa	22.7	16.9	10.0	4.1	73.9	7.2	7.0	0.2	12.8	12.5	5.3	1.0	35.9	0.4

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

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