Global Debt Monitor

COVID-19 Lights a Fuse

INSTITUTE OF INTERNATIONAL FINANCE

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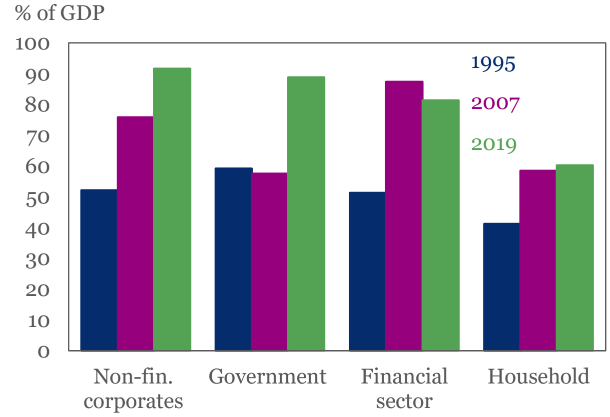
- Global debt across all sectors rose by over $10 trillion in 2019, topping $255 trillion. At over 322% of GDP, global debt is now 40 percentage points ($87 trillion) higher than at the onset of the 2008 financial crisis—a sobering realization as governments worldwide gear up to fight the pandemic.
- With the COVID-19 fiscal response in full swing, the global debt burden is set to rise dramatically in 2020; gross government debt issuance soared to a record high of over $2.1 trillion last month, more than double the 2017-19 average of $0.9 trillion.
- FX debt in EMs now exceeds $5.3 trillion. Excluding China, FX debt makes up 20% of EM debt outside the financial sector.
- **Refinancing risk alert**: Over $20 trillion of global bonds and loans come due through end-2020; $4.3 trillion of that in EMs. Emerging markets will need to refinance $730 billion in FX debt through end-2020.

Unprecedented surge in debt-to-GDP ratios ahead: As social distancing becomes the norm across most mature economies, global recession looms: a recession which would *begin* with $87 trillion more in global debt than at the onset of the 2008 financial crisis (Chart 1). With a sharp contraction in corporate earnings and mounting job losses already exacerbating the debt service burden for businesses and households, the aggressive fiscal response has already fueled a massive wave of government borrowing in many countries. Gross government debt issuance hit an all-time monthly record of over $2.1trn in March ($3.2 trillion including other sectors). Using a simple top-down estimation, if net government borrowing doubles from 2019 levels—*and* there is a 3% contraction in global economic activity (nominal terms)—the world's debt pile would surge from 322% of GDP to over 342% this year. Hence while remarkable uncertainty around the scale and duration of the pandemic makes point estimates challenging, **a sharp upward trajectory in debt levels looks all but certain**. Much of course depends on the extent to which the virus is contained and treated, and how well the fiscal policy response can support the most vulnerable segments of the economy—particularly small and medium-sized enterprises (SMEs) and low-income households. How firms and households react to these bold policy measures—and what behavioral changes may ensue—will make a big difference to recovery prospects. Moreover, beyond short-run disruptions, widening fiscal deficits and massive expansion in money stock could revive inflationary pressures. While this should ease debt burdens, the impact on prices will likely be quite different across countries, particularly between emerging and mature economies.

Finding the right exit strategy could be even more challenging this time around. Highly accommodative monetary and fiscal policy are essential to mitigate liquidity and solvency risks, but prolonged ultra-loose policies could result in still greater debt imbalances and wealth/income inequality.

Chart 1: Government debt has doubled to $70T since the 2008 crisis; pandemic response will drive that higher still



Source: IIF, BIS, IMF, National sources

Table 1: Sectoral Indebtedness*

$ trillion	Households		Non-financial corporates		Government		Financial sector		Total	
	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018
Mature markets	35.0	33.9	43.9	42.3	53.3	50.5	52.0	50.2	184.2	176.9
Emerging markets	13.0	12.2	30.3	29.2	16.7	15.3	11.1	11.0	71.1	67.7
Global	48.0	46.1	74.2	71.4	70.0	65.7	63.1	61.2	255.3	244.5

*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.

KEY TAKEAWAYS

Global debt hit a new record high of $255 trillion in 2019. Following a moderate rise of $3.3 trillion in 2018, the pace of debt accumulation was much faster at over $10.8 trillion in 2019 (Table 1). Now topping 322% of GDP, global debt is 40 percentage points higher than in 2007.

Debt outside the financial sector topped $192 trillion in 2019, up from $183 trillion in 2018. The bulk of the increase was in the general government (up $4.3 trillion) and non-financial corporate sectors ($2.8 trillion).

Emerging markets added over $3.4 trillion to the global debt mountain last year, with total EM debt exceeding $71 trillion. This has brought the EM debt-to-GDP ratio to a fresh high of 220% of GDP, up from 147% in 2007.

Governments have accounted for the lion's share of the rise in global debt since 2007—from less than $35 trillion to $70 trillion in 2019. While the U.S. and China accounted for over half of this increase, **over 85% of the 52 countries in our sample now have higher government debt-to-GDP ratios than before the 2008 financial crisis**. Of note, Spain, the UK, Japan, France, Italy, and the U.S. have all seen a surge over 40 percentage points. Across emerging markets, the rise has been over 25 percentage points in South Africa, Chile, Brazil and Argentina while Turkey and India saw a modest drop (Chart 2).

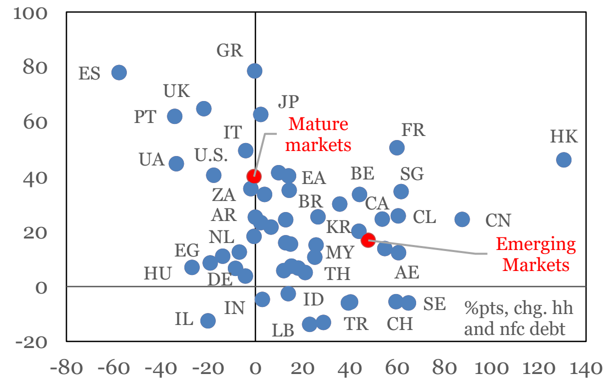
Household debt now tops $48 trillion, up from $35 trillion in 2007. Switzerland, Denmark, Norway, Canada, Netherland have the world's most indebted household sectors relative to GDP (Table 2). The build-up in household debt has been sharpest in China (up 35%pts) and Norway (up 30%pts) since 2007.

Non-financial corporate debt has surged over 70% since 2007 to near 92% of GDP ($74T). Non-financial corporate debt-to-GDP ratios are at or near record levels in Canada, Chile, France, Philippines, Singapore, South Africa, Switzerland, UAE and the U.S. With high-debt corporate sectors facing serious refinancing risks, firms with limited cash buffers are highly sensitive to prolonged disruption, particularly if a [V-shaped] recovery fails to materialize (Chart 3).

Emerging market FX debt tops $5.3 trillion, accounting for over 8% of total EM debt outside the financial sector (Chart 4). Argentina, Turkey, Chile and Colombia have seen the sharpest build-up in FX debt since 2009. Heavy reliance on FX debt represents a significant liquidity and solvency risk for some EM corporates and sovereigns, while leaving them more exposed to sudden shifts in global risk appetite.

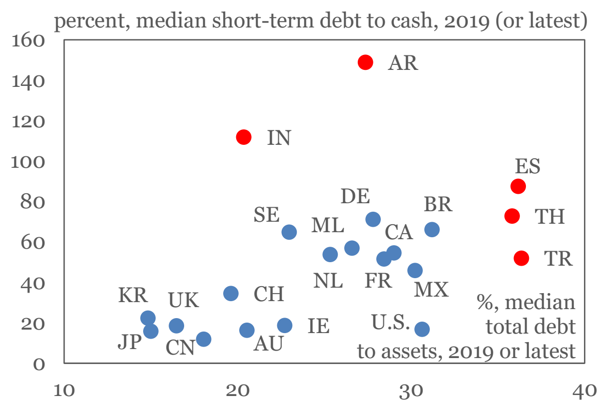
Refinancing alert: over $20 trillion of bond and loans come due through end-2020; EM debt accounts for 23% of the total. Total EM FX refinancing needs amount to some $730 billion through end-2020—over 80% of that in USD, helping explain growing calls for [debt relief].

Chart 2: Surge in debt across government, corporate and household sectors could weigh on the post-COVID recovery



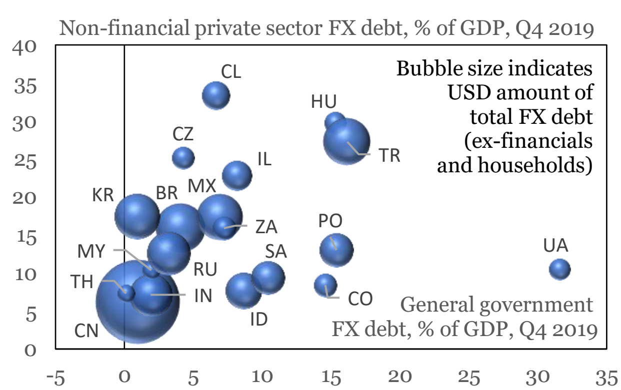
Source: IIF, BIS, IMF, National sources

Chart 3: The impact of COVID-19 will be most severe for high-debt corporate sectors with limited cash buffers



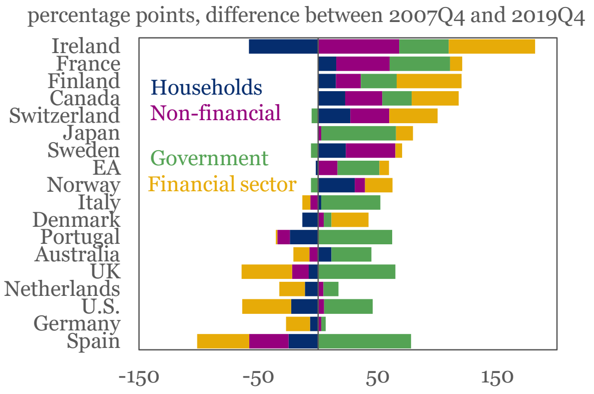
Source: IIF, Bloomberg

Chart 4: EM FX debt (ex-financials) tops $5.3 trillion



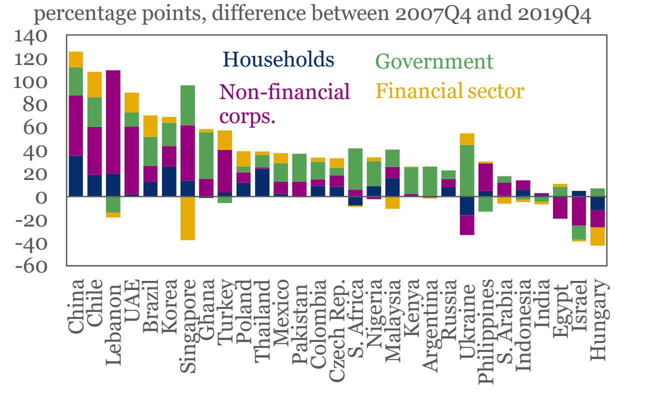
Source: IIF, National sources

Chart 5: Change in mature market debt/GDP since 2007



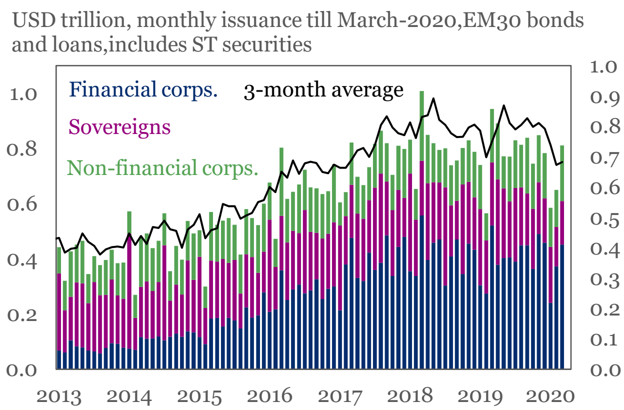
Source: BIS, Fed, ECB, BoJ, Haver, IIF.

Chart 6: Change in emerging market debt/GDP since 2007



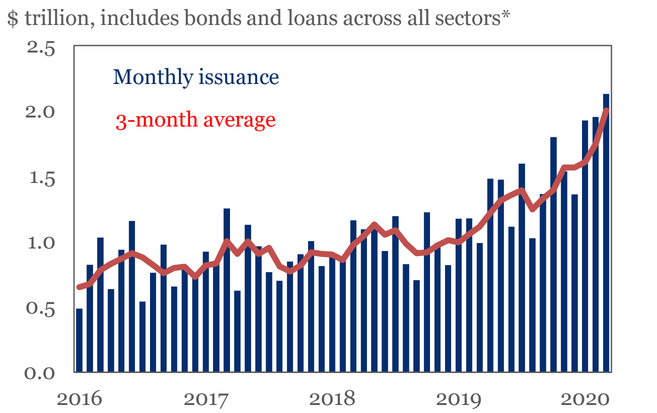
Source: BIS, Haver, IIF.

Chart 7: Sharp pickup in EM debt issuance in March



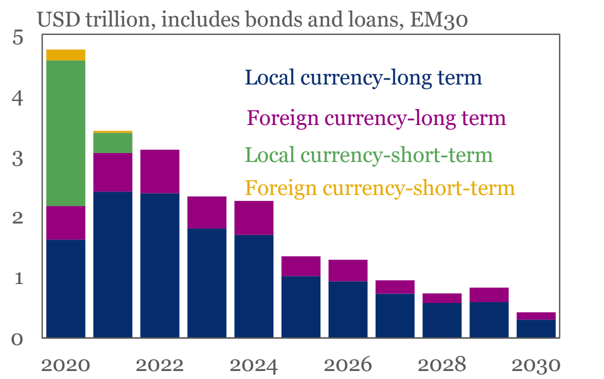
Source: Bloomberg, IIF.

Chart 8: Issuance across mature markets hit a record high in March



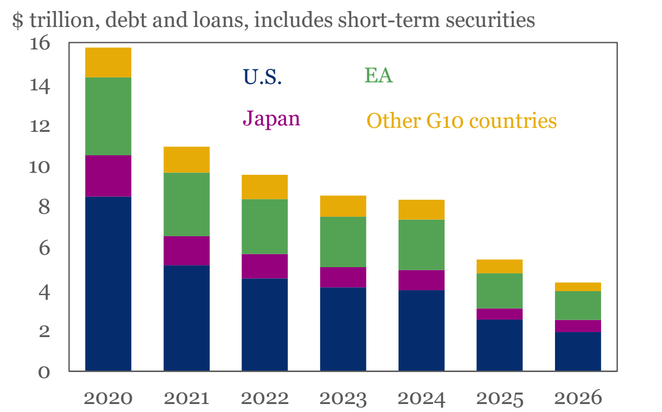
*Source: Bloomberg, IIF; *includes short-term securities*

Chart 9: EM redemption risk remain high in 2020*



*Source: Bloomberg, IIF; *The exhibit does not imply an improvement in funding strains starting in 2021. With local currency-denominated securities with a maturity less than 12 months still an important source of funding in many jurisdictions, the redemption figures for 2021 will increase as we continue to see further issuance in short-term securities through 2020.*

Chart 10: Over $15 trillion of debt will come due through end-2020 in mature markets*



*Source: Bloomberg, IIF; *The exhibit does not imply an improvement in funding strains starting in 2021. With local currency-denominated securities with a maturity less than 12 months still an important source of funding in many jurisdictions, the redemption figures for 2021 will increase as we continue to see further issuance in short-term securities through 2020.*

Table 2: Total Global Debt by Sector

% of GDP	Households		Non-financial corporates		Government		Financial Sector	
	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018
Global	**60.2**	**59.7**	**91.6**	**90.6**	**88.9**	**86.1**	**81.3**	**81.1**
Mature markets	**72.3**	**72.4**	**91.4**	**90.4**	**110.4**	**107.9**	**109.0**	**108.6**
U.S.	74.3	74.7	73.9	73.3	101.9	100.2	76.9	78.1
Euro Area	57.5	57.6	108.2	107.1	101.8	97.8	123.7	121.1
Japan	56.7	55.9	104.7	101.5	229.8	226.4	156.8	155.9
UK	83.8	83.6	80.2	82.3	105.7	102.0	175.3	175.6
Emerging markets	**40.1**	**38.4**	**91.9**	**90.9**	**52.7**	**49.5**	**35.0**	**35.1**
EM Asia	50.3	48.0	119.3	117.8	54.4	50.3	42.8	42.9
China	54.3	51.5	150.3	149.1	53.7	48.8	42.2	42.7
Hong Kong	79.5	72.2	228.2	219.4	67.0	66.3	144.2	155.9
India	12.0	11.3	44.0	44.8	69.0	67.2	3.9	4.7
Indonesia	17.7	17.0	22.6	23.4	30.2	29.6	8.7	8.6
Malaysia	68.4	68.0	67.9	68.5	54.1	51.2	30.6	32.4
Pakistan	2.7	2.9	13.6	14.3	76.7	71.7	0.7	0.9
Philippines	16.4	16.6	30.9	32.6	39.3	38.9	12.2	12.1
S. Korea	95.3	91.9	102.6	95.7	41.6	36.8	90.5	83.7
Singapore	52.4	52.9	124.0	112.7	120.3	108.7	183.3	183.8
Thailand	68.7	68.6	47.3	47.9	33.3	33.9	38.5	38.7
EM Europe	20.6	20.0	51.1	52.2	30.0	29.7	18.0	18.9
Czech Republic	31.5	32.1	55.8	56.9	33.8	34.0	36.5	34.4
Hungary	18.0	17.8	63.4	65.9	72.7	73.4	25.1	23.5
Poland	34.6	35.2	43.3	45.6	49.7	50.9	23.4	21.9
Russia	18.8	17.0	46.0	45.6	15.7	14.6	9.8	11.5
Turkey	14.9	15.3	66.5	69.1	32.6	32.1	25.1	27.5
Ukraine	6.0	5.5	23.7	26.8	57.0	60.2	10.1	11.4
EM Latam	24.1	23.6	38.3	37.2	68.7	66.1	28.2	28.2
Argentina	5.5	6.6	16.4	15.7	97.4	89.5	6.6	8.0
Brazil	30.4	29.2	43.7	42.0	88.5	86.2	40.7	41.8
Chile	47.6	45.4	107.7	98.9	33.5	27.5	53.5	46.3
Colombia	25.2	26.4	31.3	32.9	48.0	48.3	5.5	5.6
Mexico	16.0	16.1	25.1	25.8	36.4	35.4	17.1	16.3
AFME	20.3	20.2	41.9	41.3	41.7	40.2	13.8	13.2
Egypt	7.4	7.0	21.0	24.4	84.9	92.7	5.0	6.2
Ghana	2.4	2.8	17.2	20.2	63.8	59.3	4.4	3.4
Israel	41.6	41.8	68.5	69.4	60.6	60.4	10.4	10.1
Kenya	7.0	7.9	18.1	20.9	61.6	60.1	1.7	2.0
Lebanon	54.0	53.1	90.0	102.2	155.1	151.0	7.6	8.7
Nigeria	15.2	15.9	8.2	8.3	29.8	27.3	4.3	4.3
Saudi Arabia	11.9	11.5	46.3	43.2	22.8	19.0	4.1	3.9
South Africa	34.1	33.6	40.6	38.6	64.1	58.8	25.8	25.5
UAE	22.4	22.2	70.1	67.3	20.1	19.1	46.8	42.4

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 Q4-2019	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	144.1	6.2	5.4	0.5	52.7	1.0	0.7	0.2	36.1	6.1	4.9	0.6	54.3	0.0
Hong Kong	31.9	196.4	143.8	40.5	65.2	1.8	1.6	0.0	30.8	113.3	89.8	10.8	76.7	2.8
India	36.9	7.1	5.8	1.1	67.1	1.9	1.9	0.0	0.9	3.0	2.7	0.1	12.0	0.0
Indonesia	14.9	7.7	7.2	0.2	21.6	8.7	7.0	1.1	4.1	4.6	4.3	0.2	17.4	0.3
Malaysia	57.5	10.4	7.2	0.1	52.1	1.9	1.5	0.0	10.7	19.9	15.0	2.1	68.0	0.3
S. Korea	85.2	17.4	14.9	1.7	40.7	0.9	0.7	0.1	62.9	27.5	22.1	3.7	94.6	0.6
Singapore	68.4	55.6	49.1	2.2	120.3	0.0	0.0	0.0	45.8	137.6	101.1	15.1	41.5	10.9
Thailand	40.0	7.3	6.2	0.1	33.1	0.1	0.1	0.0	31.5	6.9	6.2	0.4	68.6	0.1
EM Europe														
Czech Republic	30.6	25.2	1.4	23.0	29.6	4.3	0.0	4.1	31.5	5.0	0.4	4.6	31.4	0.1
Hungary	33.6	29.7	3.3	26.4	57.4	15.3	9.7	5.1	8.1	17.0	8.2	8.6	17.9	0.1
Poland	30.3	13.0	0.7	12.3	34.3	15.4	2.1	12.7	14.0	9.5	2.2	2.8	23.0	11.6
Russia	33.4	12.6	5.8	5.7	12.5	3.2	3.0	0.2	5.9	4.0	3.3	0.4	18.6	0.1
Turkey	39.3	27.3	12.2	14.5	16.4	16.2	9.5	4.9	4.8	20.3	15.8	4.5	14.9	0.0
Ukraine	13.2	10.5	8.3	2.1	25.4	31.6	26.1	5.4	1.3	8.9	5.3	3.5	4.9	1.1
EM Latam														
Argentina	4.6	11.8	11.4	0.3	16.9	80.5	62.6	8.1	2.6	4.0	1.3	0.2	5.3	0.2
Brazil	27.8	15.9	14.0	1.5	84.4	4.1	3.6	0.5	31.3	9.4	8.9	0.3	30.4	0.0
Chile	74.3	33.4	32.1	0.7	26.9	6.6	3.6	3.0	42.9	10.6	8.9	0.2	45.6	2.0
Colombia	22.9	8.4	7.4	0.4	33.5	14.6	13.8	0.8	0.7	4.8	4.8	0.0	25.1	0.1
Mexico	7.7	17.3	13.2	2.8	29.5	6.9	5.0	1.4	13.7	3.5	2.5	0.5	16.0	0.0
AFME														
Israel	45.6	22.8	16.0	5.0	52.4	8.2	5.1	3.0	9.3	1.1	0.9	0.2	41.4	0.2
S. Arabia	36.9	9.4	9.0	0.2	12.4	10.4	10.4	0.0	1.1	2.9	2.7	0.1	11.9	0.0
S. Africa	24.8	15.9	9.7	3.2	56.9	7.2	6.4	0.5	14.0	11.8	5.6	1.1	33.7	0.3

Sources: IIF, BIS, Haver, National Sources, IIF estimates
**LC=local currency; FC=foreign currency*