# Global Debt Monitor

# Cracks in the Foundation

*May 17th, 2023*

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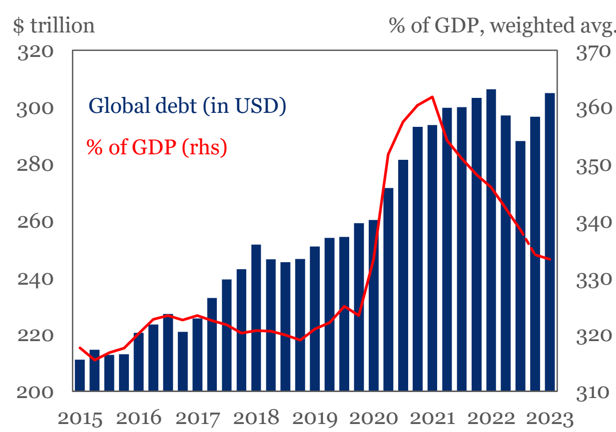
- The global debt stock grew by $8.3 trillion to a near-record $305 trillion in Q123; the combination of high debt levels and rising interest rates has pushed up debt service costs, prompting concerns about leverage in the financial system.
- Total debt of emerging markets hit a fresh record high of over $100 trillion (or 250% of GDP)—up from $75 trillion in 2019.
- With financial conditions at their most restrictive levels since the 2008-09 financial crisis, a credit crunch would prompt higher default rates and result in more "zombie firms"—already approaching an estimated 14% of U.S.-listed firms.
- Recent banking sector turmoil could prompt further expansion of fast-growing private debt markets (now over $2 trillion).

**Global debt at a near-record $305 trillion:** As central banks respond to fragile market sentiment by slowing the pace of rate hikes, the global debt burden surged by over $8.3 trillion in Q1 2023. This marked a second consecutive quarterly increase, following two quarters of sharp decline during last year's rapid monetary policy tightening (Chart 1). The rebound was primarily driven by non-financial corporates and the government sector (Table 1). At close to $305 trillion, global debt is now $45 trillion higher than its pre-pandemic level and is expected to continue increasing rapidly: Despite concerns about a potential credit crunch following the recent turmoil in the banking sectors of the U.S. and Switzerland (see below), government borrowing needs remain elevated. A combination of factors including aging populations, rising healthcare costs and substantial climate finance gaps continues to put pressure on government balance sheets. Heightened geopolitical tensions are also expected to drive further increases in national defense spending over the medium term, potentially impacting the credit profile of both sovereign and corporate borrowers. If this trend continues, it will have significant implications for international debt markets, particularly if interest rates remain higher for longer.

**Emerging market debt now over $100 trillion:** While global debt/GDP has stabilized near 335% of GDP, nearly 75% of our EM universe experienced a rise in debt levels (in USD terms) during the first quarter of 2023. The increase was sharper in mature markets, driven by Japan, the U.S., France, and the UK. Among emerging markets, the biggest increases were seen in China, Mexico, Brazil, India, and Türkiye, propelling total EM debt to all-time high of over $100 trillion – up from around $75 trillion in 2019.

**Chart 1: Global debt surpassed $300 trillion in Q1 2023**




*Source: IIF*

**Table 1: Sectoral Indebtedness***

| $ trillion | Households | | Non-financial corporates | | Government | | Financial sector | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Q1 2023* | *Q1 2022* | *Q1 2023* | *Q1 2022* | *Q1 2023* | *Q1 2022* | *Q1 2023* | *Q1 2022* | *Q1 2023* | *Q1 2022* |
| Mature markets | 39.0 | 38.8 | 49.5 | 49.1 | 59.7 | 62.6 | 56.0 | 56.3 | 204.2 | 206.8 |
| Emerging markets | 18.7 | 18.5 | 42.3 | 41.4 | 26.0 | 25.2 | 13.7 | 14.5 | 100.7 | 99.5 |
| Global | 57.6 | 57.4 | 91.9 | 90.5 | 85.7 | 87.8 | 69.8 | 70.8 | 304.9 | 306.3 |

*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 from the IMF-WEO database. For details, see the "General Information" section of our database.*

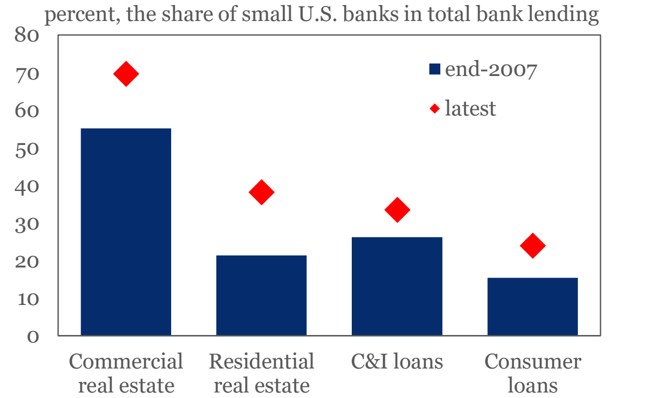
The Global Debt Monitor and updated global debt database are available to IIF members on our website at https://www.iif.com/Products/Global-Debt-Monitor. If you would like to receive regular updates about this publication, please subscribe here.

**"Crisis of adaptation" to a new monetary regime:** With last year's rapid monetary tightening creating liquidity mismatches on the balance sheets of some weaker financial institutions, the recent banking turmoil has underscored the importance of maintaining public confidence to ensure financial stability. Although recent bank failures appear more idiosyncratic than systemic—and U.S. financial institutions carry much less debt (78% of GDP) than in the run-up to the 2007/8 crisis (110% in 2006)—fear of contagion has prompted significant deposit withdrawals from U.S. regional banks. Given the central role of regional banks in credit intermediation in the U.S., worries about their liquidity positions could result in a sharp contraction in lending to some segments, including underbanked households and businesses (Chart 2). With U.S. banks increasingly reporting tighter lending standards, such a contraction could hit small businesses particularly hard, while resulting in higher default rates and more zombie firms across the board. We estimate that around 14% of U.S. companies can be considered zombies, with a substantial portion of these in the healthcare and information technology sectors.

**Less appetite for EM local currency debt:** Several major EMs have benefited from the recent weakening of the USD and the slowdown in interest rate hikes in mature markets. This has been evident in positive portfolio debt flows into these larger EMs since the beginning of the year. However, in stark contrast, many smaller high-yield sovereigns continue to have limited access to Eurobond markets due to higher borrowing costs (Chart 3). More broadly, with the interest rate differential between EMs and mature markets diminishing, EM local currency debt is less appealing for foreign investors. This could hinder the capacity and ability of some countries to effectively respond to exogenous shocks, including challenges related to climate change.

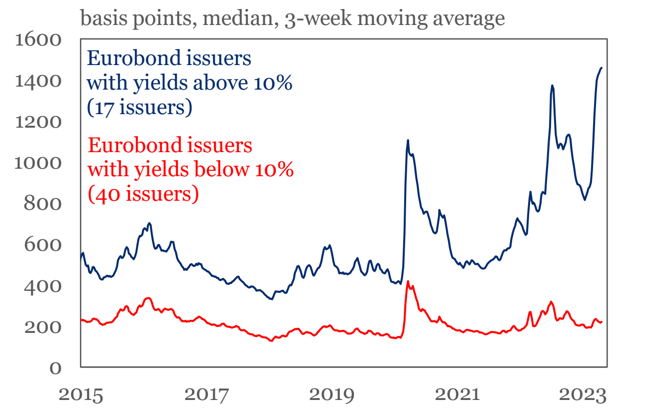
**Rise of private debt markets:** Non-bank financial institutions (NBFIs) continue to gain prominence in global credit intermediation. The so-called "shadow banks" now account for more than 14% of financial markets, with the majority of growth stemming from a rapid expansion of U.S. investment funds and private debt markets. Although higher interest rates have slowed activity in riskier segments of the shadow banking system, we expect that ongoing pressures on U.S. regional banks will facilitate the continued expansion of private debt markets (an alternative funding source for mid-sized firms) where investor redemption risks appear low compared to certain open-ended investment funds.

**Chart 2: Given increased reliance on small banks in credit intermediation, ongoing strains in U.S. regional banks have exacerbated concerns about a potential credit crunch**



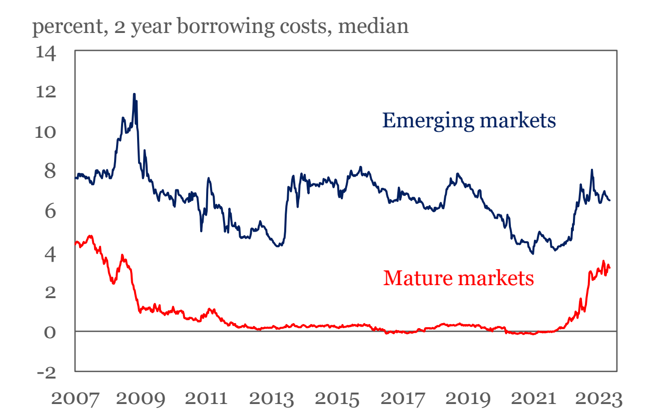

*Source: FRED, IIF*

**Chart 3: International funding costs have spiked for high-yield sovereign borrowers, weighing on their ability to tap international debt markets**



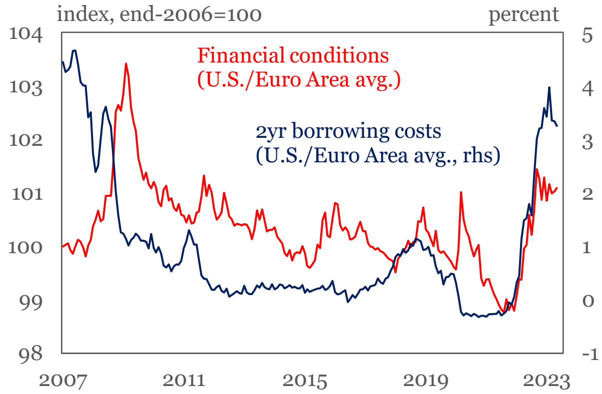

*Source: Bloomberg, IIF*

**Chart 4: The narrowing interest rate differential between EMs and mature markets reduces the appeal of EM domestic securities**



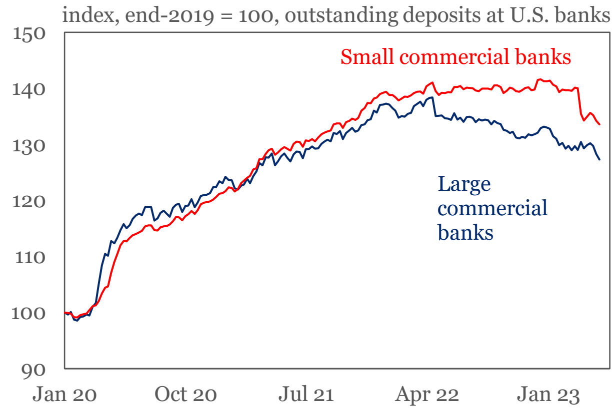

*Source: Bloomberg, IIF*

**Chart 5: Tighter financial conditions continue to unmask vulnerabilities on corporate and sovereign balance sheets**



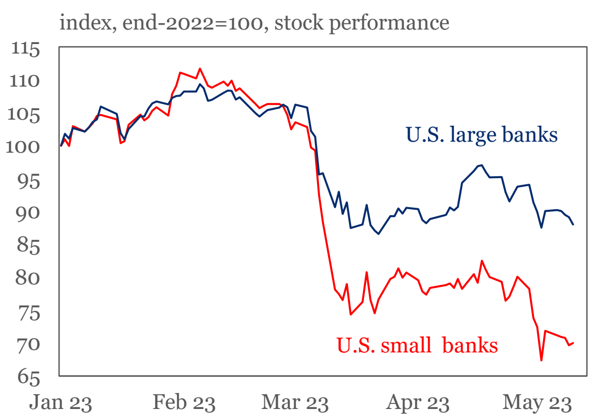

*Source: Bloomberg, IIF*

**Chart 6: Big deposit outflows put pressure on small U.S. banks**



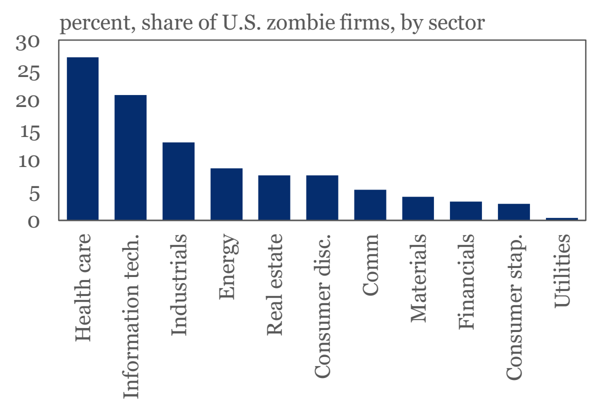

*Source: FRED, IIF*

**Chart 7: Banking turmoil looks more idiosyncratic than systemic**



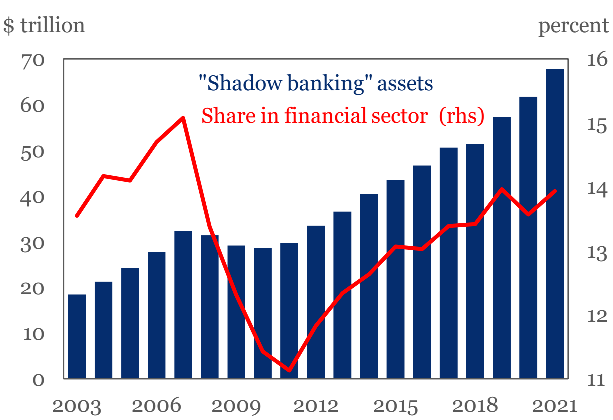

*Source: FRED, IIF*

**Chart 8: Zombie firms continue to pose risks to financial stability with their close ties to small banks**



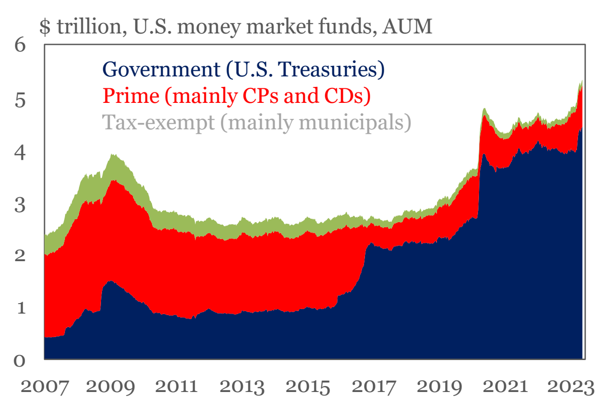

*Source: Bloomberg, IIF; firms older than 10 years with an EBIT/interest expense ratio of less than 1 for three years in a row*

**Chart 9: The strong growth in "shadow banking" assets has been driven primarily by a robust expansion in the investment fund universe**




*Source: FSB, IIF*

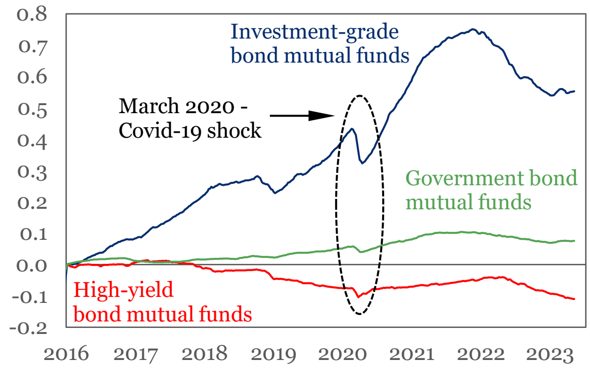
**Chart 10: Rapid expansion of money market funds has facilitated the massive global debt accumulation in recent years**




*Source: ICI, IIF*

**Chart 11: The rapid growth of mutual funds has allowed countries and companies to better access to international debt markets**

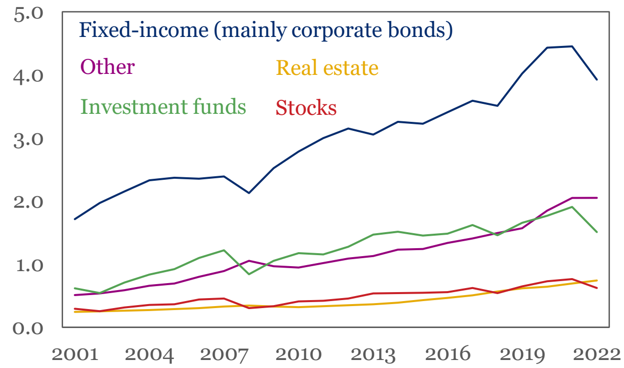
$ trillion, cumulative bond mutual fund flows




*Source: ICI, IIF*

**Chart 12: A large portion of outstanding corporate debt securities today are held by life insurance companies, raising concerns over their increased exposure to less liquid assets**

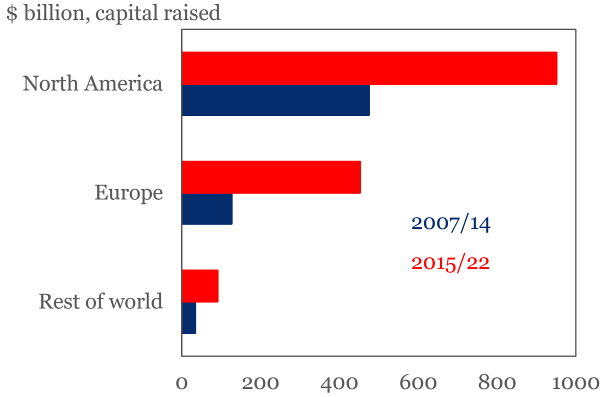
$ trillion, financial assets of U.S. life insurance companies




*Source: Fed, IIF*

**Chart 13: The size of private debt markets surpassed $2.1 trillion in 2022, up from less than $0.1 trillion in 2007**

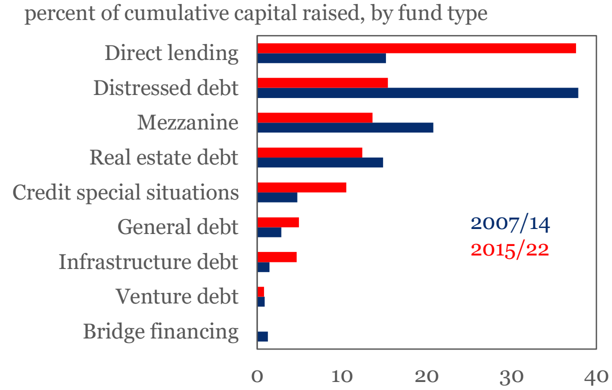
$ billion, capital raised




*Source: PitchBook, IIF*

**Chart 14: Direct lending funds are the most common structure in private debt markets**

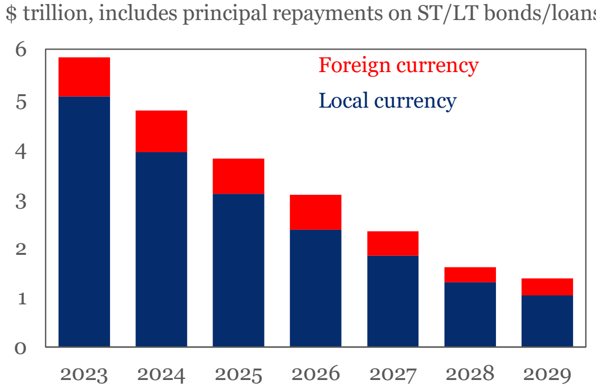
percent of cumulative capital raised, by fund type




*Source: PitchBook, IIF*

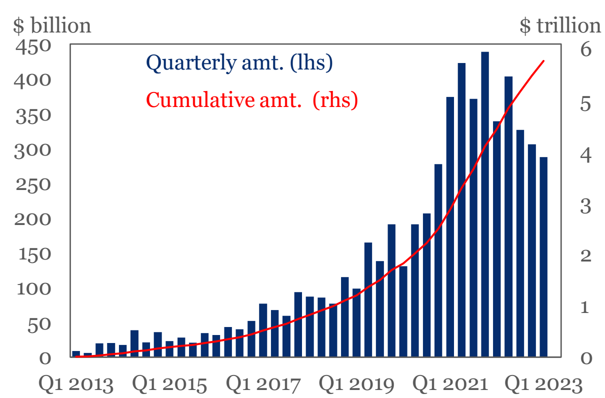
**Chart 15: EMs face some $5.8 trillion of bond and loan redemption until year-end***

$ trillion, includes principal repayments on ST/LT bonds/loans




*Source: Bloomberg, IIF. *The exhibit does not imply an improvement in funding strains starting in 2023. While local currency-denominated securities with a maturity less than 12 months are still an important source of funding in many jurisdictions, the redemption figures for 2023 will increase as we continue to see further issuance of short-term securities through 2023*

**Chart 16: In a challenging Q1 for banks that curtailed many types of lending, ESG debt issuance fell 15%yoy to $285 billion**




*Source: IIF Sustainable Debt Monitor database*

**Table 2: Total Global Debt by Sector**

| % of GDP | Households | | Non-financial corporates | | Government | | Financial Sector | |
|---|---|---|---|---|---|---|---|---|
| | Q1 2023 | Q1 2022 | Q1 2023 | Q1 2022 | Q1 2023 | Q1 2022 | Q1 2023 | Q1 2022 |
| **Global** | **62.0** | **63.9** | **96.3** | **97.5** | **95.5** | **101.3** | **79.5** | **83.2** |
| **Mature markets** | **71.2** | **74.3** | **92.2** | **95.3** | **113.6** | **123.6** | **106.2** | **111.0** |
| U.S. | 73.0 | 76.3 | 78.3 | 80.1 | 116.1 | 122.3 | 78.0 | 78.2 |
| Euro Area | 55.8 | 58.9 | 102.4 | 108.3 | 92.0 | 107.7 | 105.2 | 113.6 |
| Japan | 65.2 | 64.8 | 118.7 | 115.8 | 239.1 | 244.7 | 194.5 | 201.7 |
| UK | 81.6 | 85.3 | 66.1 | 71.8 | 85.4 | 113.3 | 158.8 | 176.9 |
| **Emerging markets** | **46.5** | **46.3** | **103.1** | **101.1** | **65.0** | **64.0** | **34.8** | **36.7** |
| EM Asia | 59.5 | 58.7 | 131.6 | 127.6 | 73.7 | 70.6 | 42.7 | 44.7 |
| China | 63.6 | 61.1 | 163.7 | 155.9 | 78.6 | 72.6 | 45.5 | 47.4 |
| Hong Kong | 95.1 | 93.9 | 269.0 | 286.9 | 68.8 | 81.5 | 146.8 | 166.3 |
| India | 36.6 | 37.1 | 52.6 | 54.6 | 81.3 | 84.8 | 2.6 | 3.1 |
| Indonesia | 15.9 | 16.9 | 23.5 | 24.4 | 39.2 | 40.3 | 6.7 | 7.3 |
| Malaysia | 66.1 | 71.6 | 59.1 | 67.5 | 60.2 | 63.0 | 24.6 | 26.2 |
| Pakistan | 2.2 | 2.4 | 11.1 | 11.3 | 75.1 | 74.2 | 1.3 | 0.8 |
| Philippines | 13.5 | 15.2 | 29.4 | 31.8 | 57.3 | 57.4 | 8.9 | 10.8 |
| S. Korea | 102.2 | 105.5 | 118.4 | 115.3 | 44.1 | 47.3 | 84.9 | 84.0 |
| Singapore | 48.2 | 52.8 | 126.0 | 143.8 | 165.1 | 147.7 | 160.6 | 180.2 |
| Thailand | 85.7 | 90.0 | 85.2 | 88.8 | 53.7 | 53.7 | 30.6 | 34.3 |
| Vietnam | 25.6 | 26.0 | 111.9 | 103.4 | 37.5 | 39.1 | 4.6 | 4.8 |
| EM Europe | 20.2 | 21.5 | 63.5 | 68.0 | 30.6 | 33.3 | 15.1 | 18.7 |
| Czech Republic | 31.6 | 34.4 | 48.4 | 51.5 | 35.6 | 39.8 | 32.6 | 40.5 |
| Hungary | 17.6 | 20.3 | 80.0 | 80.2 | 61.3 | 71.4 | 9.2 | 11.2 |
| Poland | 25.2 | 31.0 | 38.4 | 42.6 | 42.9 | 48.8 | 24.5 | 25.9 |
| Russia | 21.0 | 20.3 | 76.8 | 75.6 | 19.9 | 17.3 | 8.3 | 8.5 |
| Turkey | 12.6 | 13.9 | 56.2 | 73.0 | 36.2 | 44.9 | 17.9 | 28.7 |
| EM Latam | 24.2 | 24.7 | 41.1 | 40.5 | 62.9 | 66.4 | 25.6 | 26.5 |
| Argentina | 3.6 | 4.3 | 15.2 | 17.0 | 72.7 | 76.9 | 9.3 | 8.4 |
| Brazil | 32.2 | 33.4 | 52.0 | 50.0 | 82.5 | 87.9 | 43.8 | 44.2 |
| Chile | 45.8 | 44.5 | 102.3 | 96.7 | 37.6 | 34.7 | 40.3 | 45.6 |
| Colombia | 27.2 | 29.7 | 31.4 | 33.7 | 56.9 | 64.4 | 4.8 | 5.5 |
| Mexico | 17.0 | 16.2 | 23.7 | 23.9 | 40.3 | 41.2 | 9.2 | 10.7 |
| Peru | 13.8 | 14.0 | 43.5 | 47.0 | 33.7 | 35.6 | 7.9 | 8.4 |
| AFME | 19.0 | 20.2 | 42.1 | 44.7 | 46.2 | 48.8 | 15.4 | 16.4 |
| Egypt | 8.9 | 8.9 | 21.7 | 21.2 | 81.9 | 83.2 | 5.9 | 4.1 |
| Ghana | 2.7 | 2.8 | 14.6 | 15.9 | 92.7 | 84.0 | 5.3 | 6.8 |
| Israel | 42.8 | 44.2 | 68.6 | 70.8 | 57.4 | 65.4 | 10.5 | 10.9 |
| Kenya | 11.2 | 11.4 | 19.9 | 18.7 | 69.1 | 67.6 | 2.0 | 1.4 |
| Nigeria | 7.7 | 7.5 | 11.1 | 10.2 | 38.2 | 37.2 | 5.7 | 5.5 |
| Saudi Arabia | 12.5 | 14.6 | 57.1 | 61.1 | 22.0 | 26.8 | 4.8 | 5.2 |
| South Africa | 33.0 | 34.3 | 31.0 | 32.3 | 70.7 | 69.5 | 30.6 | 27.5 |
| UAE | 20.6 | 22.3 | 56.6 | 65.5 | 30.2 | 34.3 | 46.8 | 57.3 |

*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 Q1-2023*** | 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 | 159.0 | 4.7 | 4.0 | 0.5 | 77.7 | 0.9 | 0.6 | 0.3 | 41.4 | 4.1 | 3.2 | 0.3 | 63.6 | 0.0 |
| Hong Kong | 54.7 | 214.3 | 155.6 | 38.0 | 62.6 | 6.2 | 3.6 | 1.0 | 38.9 | 108.0 | 82.3 | 10.7 | 92.2 | 2.9 |
| India | 45.5 | 7.1 | 6.1 | 0.9 | 81.3 | 0.0 | 0.0 | 0.0 | 0.5 | 2.1 | 1.7 | 0.2 | 36.6 | 0.0 |
| Indonesia | 15.7 | 7.8 | 7.2 | 0.5 | 31.0 | 8.2 | 6.8 | 1.1 | 2.5 | 4.2 | 4.0 | 0.1 | 15.6 | 0.3 |
| Malaysia | 45.8 | 13.3 | 11.1 | 0.0 | 58.2 | 2.0 | 1.7 | 0.0 | 11.3 | 13.3 | 10.8 | 1.3 | 65.8 | 0.3 |
| S. Korea | 96.4 | 22.0 | 17.9 | 3.2 | 43.1 | 1.0 | 0.5 | 0.4 | 64.8 | 20.0 | 15.9 | 2.7 | 101.4 | 0.8 |
| Singapore | 65.3 | 60.7 | 55.2 | 2.6 | 165.1 | 0.0 | 0.0 | 0.0 | 46.2 | 114.4 | 78.9 | 13.2 | 40.6 | 7.5 |
| Thailand | 72.0 | 13.3 | 11.9 | 0.5 | 53.5 | 0.3 | 0.3 | 0.0 | 22.8 | 7.8 | 6.8 | 0.3 | 85.5 | 0.2 |
| EM Europe | | | | | | | | | | | | | | |
| Czech Republic | 22.0 | 26.4 | 0.8 | 24.2 | 34.5 | 1.1 | 0.0 | 1.0 | 27.3 | 5.3 | 0.4 | 4.8 | 31.5 | 0.1 |
| Hungary | 46.4 | 33.6 | 10.1 | 23.4 | 46.1 | 15.3 | 7.2 | 7.3 | 4.1 | 5.2 | 1.1 | 4.0 | 17.5 | 0.1 |
| Poland | 24.8 | 13.6 | 0.8 | 12.8 | 34.7 | 8.2 | 1.9 | 6.0 | 15.2 | 9.3 | 0.9 | 4.5 | 19.2 | 6.1 |
| Russia | 64.9 | 11.9 | 5.8 | 5.3 | 17.2 | 2.7 | 2.3 | 0.4 | 6.7 | 1.6 | 1.4 | 0.1 | 20.9 | 0.0 |
| Turkey | 30.9 | 25.3 | 10.7 | 14.2 | 13.6 | 22.6 | 14.9 | 4.4 | 2.3 | 15.6 | 11.6 | 3.9 | 12.6 | 0.0 |
| EM Latam | | | | | | | | | | | | | | |
| Argentina | 9.8 | 5.4 | 5.3 | 0.1 | 24.1 | 48.6 | 38.6 | 1.3 | 8.8 | 0.5 | 0.3 | 0.1 | 3.5 | 0.1 |
| Brazil | 38.1 | 13.9 | 12.6 | 1.0 | 78.8 | 3.7 | 2.9 | 0.8 | 36.8 | 7.0 | 5.9 | 0.2 | 32.2 | 0.0 |
| Chile | 68.4 | 34.0 | 33.0 | 0.4 | 25.9 | 11.7 | 7.8 | 3.9 | 33.2 | 7.2 | 5.8 | 0.2 | 43.9 | 1.8 |
| Colombia | 19.2 | 12.2 | 11.2 | 0.5 | 36.8 | 20.1 | 19.3 | 0.8 | 0.4 | 4.3 | 4.2 | 0.1 | 27.1 | 0.1 |
| Mexico | 9.5 | 14.2 | 12.1 | 1.4 | 34.3 | 6.0 | 4.5 | 1.2 | 6.6 | 2.5 | 1.8 | 0.4 | 17.0 | 0.0 |
| Peru | 22.8 | 20.7 | 20.3 | 0.4 | 16.5 | 17.2 | 14.8 | 2.4 | 2.6 | 5.3 | 5.2 | 0.1 | 12.8 | 1.0 |
| AFME | | | | | | | | | | | | | | |
| Israel | 48.6 | 20.0 | 13.5 | 5.7 | 49.0 | 8.4 | 5.7 | 2.7 | 7.5 | 3.0 | 2.5 | 0.4 | 42.7 | 0.2 |
| S. Arabia | 47.7 | 9.5 | 9.1 | 0.3 | 14.8 | 7.2 | 7.2 | 0.0 | 0.6 | 4.2 | 3.6 | 0.1 | 12.5 | 0.0 |
| S. Africa | 16.5 | 14.5 | 8.4 | 4.5 | 64.1 | 6.6 | 6.5 | 0.1 | 21.0 | 9.5 | 4.3 | 0.9 | 32.7 | 0.3 |

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

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