Navigating the New Normal

May 7, 2024
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- Global debt rose by some $1.3 trillion to a new record high of $315 trillion in Q1 2024.
- Moreover, after three consecutive quarters of decline, the global debt-to-GDP resumed its upward trajectory in Q1 2024.
- Emerging market debt topped $105 trillion in Q1 2024, with the largest increases coming from China, India, and Mexico.
- Across mature markets, debt rose most quickly in the U.S. and Japan; that said, a weaker yen should support debt dynamics for the Japanese government and corporates.
- Given "sticky" U.S. inflation and an expected delay to Fed rate cuts, a USD rally—with the ECB beginning to ease—could once again bring government debt strains to the fore, particularly for developing countries.
- Of note: rising trade frictions and deeper geoeconomic fragmentation could diminish the external debt servicing capacity of emerging markets.

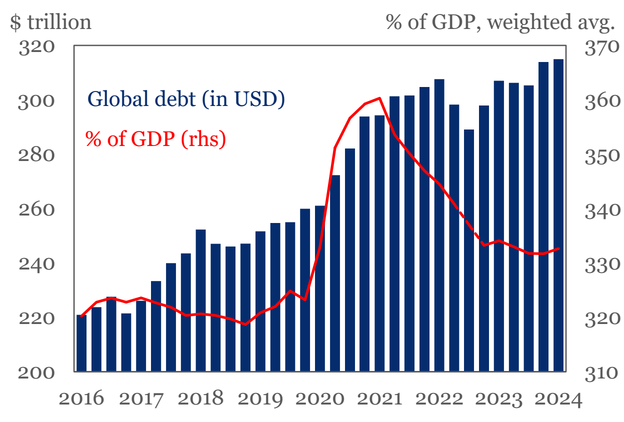
GLOBAL DEBT HIT $315 TRILLION IN Q1 2024

Global debt increased by $1.3 trillion in the first quarter of 2024, reaching a new record high of over $315 trillion—333% of GDP. This increase marks the second consecutive quarterly rise and was primarily driven by emerging markets, where debt surged to an unprecedented high of over $105 trillion—$55 trillion more than a decade ago. The bulk of the EM debt buildup came from China, India, and Mexico in Q1 2024. Conversely, Korea, Thailand, and Brazil saw the most significant declines in the USD value of their total debt.

Total debt levels in mature markets remained broadly stable in Q1, as a reduction in debt by households and non-financial corporations offset the continued rise in government and financial sector indebtedness. The overall increase was primarily concentrated in the U.S. and Japan, followed by Ireland and Canada while the most significant declines were observed in Switzerland and Germany.

A "multi-faceted new normal": Although the relatively sanguine near-term global economic outlook is a positive factor for debt dynamics, stubborn inflation, particularly in the U.S., continues to pose a significant risk, putting upward pressure on global funding costs. While the health of household balance sheets should provide a cushion against "higher for longer rates" in the near term (Chart 2), government budget deficits are still higher than pre-pandemic levels and are projected to contribute around $5.3 trillion to global debt accumulation this year.

Chart 1: Total global debt stock at record $315 trillion



Source: IIF Global Debt Monitor

Table 1: Sectoral Indebtedness*

$ trillion	Households		Non-financial corporates		Government		Financial sector		Total	
	Q1 2024	*Q1 2023*	*Q1 2024*	*Q1 2023*	*Q1 2024*	*Q1 2023*	*Q1 2024*	*Q1 2023*	*Q1 2024*	*Q1 2023*
Mature markets	39.9	39.6	50.2	50.1	63.0	60.3	56.5	55.9	209.7	205.9
Emerging markets	19.2	18.6	44.0	42.5	28.4	26.2	13.9	13.8	105.4	101.1
Global	59.1	58.2	94.1	92.6	91.4	86.4	70.4	69.8	315.1	307.0

*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.*

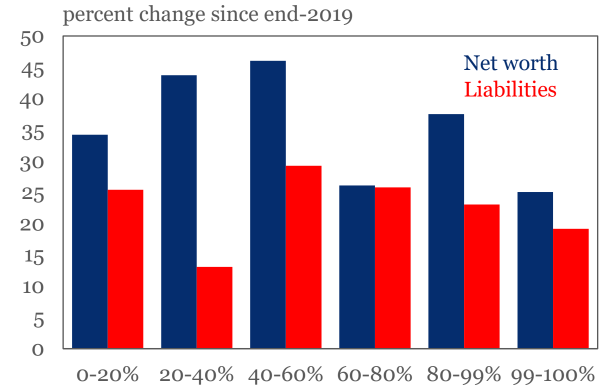
Rising trade friction and geopolitical tensions also present significant potential headwinds for debt markets. As [China](#) aims to become the world's leading supplier of new clean energy technologies, tighter supply chain constraints, fueled by [industry-specific protectionist policies](#), could keep both inflation and interest rates above pandemic levels. Such a scenario would undermine trade and investment flows and further reduce the external debt servicing capacity of emerging and [frontier](#) markets.

With growing signs of decoupling across both sides of the Atlantic on several fronts, including growth, inflation, productivity, and government debt, many question whether it is time for additional policy stimulus in Europe to boost economic activity (Chart 3). However, an abrupt policy shift in this direction could trigger a USD rally, drive further [capital flight to U.S. assets](#), and exert additional pressure on the balance sheets of non-US borrowers with significant USD debt.

A weaker yen and Japan's debt dynamics: Japan stands out as one of the world's most heavily indebted countries, with total debt hovering over 600% of GDP—a staggering increase of over 60%pts vs. pre-COVID-19 levels. This surge in Japanese debt was the largest across major mature markets during this period. The general government accounts for the largest portion of Japan's indebtedness. However, since the onset of the pandemic, debt buildup has been more pronounced in the financial sector (Chart 4). The rise in government debt was relatively modest, at around 4%pts, compared to a 17%pt increase in the U.S. government debt and 25%pt surge in China's government debt.

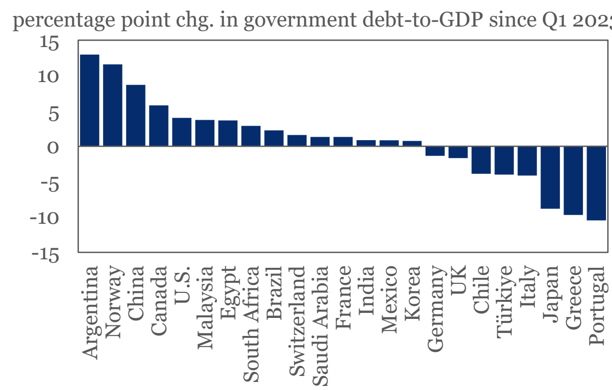
Given that Japan's financial institutions and the general government hold substantial amounts of foreign assets, the sharp depreciation of the Japanese yen against the currencies of its major trading partners should support Japan's sovereign and corporate debt dynamics. Notably, Japan's significant holdings of interest-bearing government assets held abroad, coupled with relatively low borrowing costs, have played a crucial role in keeping government net interest expense relatively low in recent years (Chart 5). However, a weaker yen could place additional pressure on household balance sheets by diminishing their purchasing power and could adversely impact household debt dynamics over the medium term.

Chart 2: US households' asset accumulation has broadly outpaced debt accumulation since the onset of the pandemic, leaving household balance sheets better off



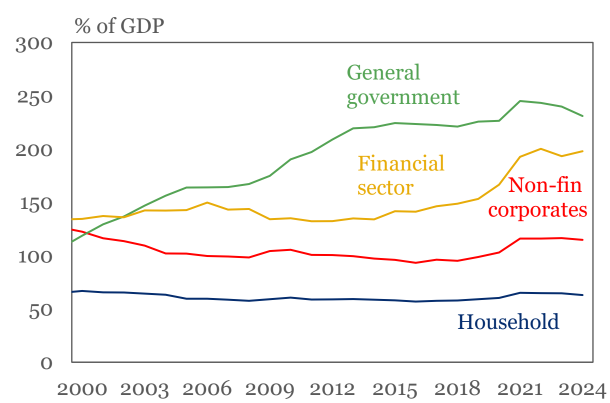
Source: FED, IIF

Chart 3: The rise in government debt ratios across European counties has been relatively limited in recent quarters



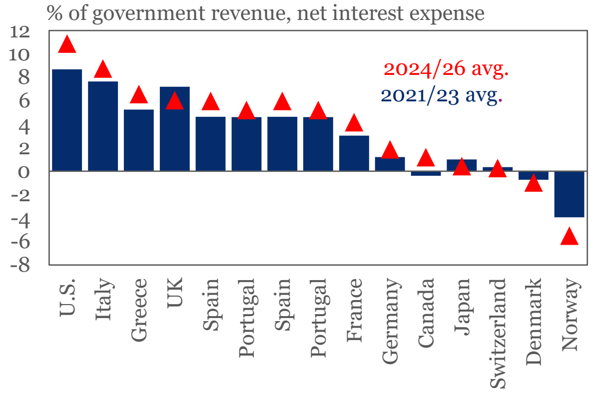
Source: IIF Global Debt Monitor

Chart 4: Japan's post-pandemic debt buildup has been primarily in the financial sector



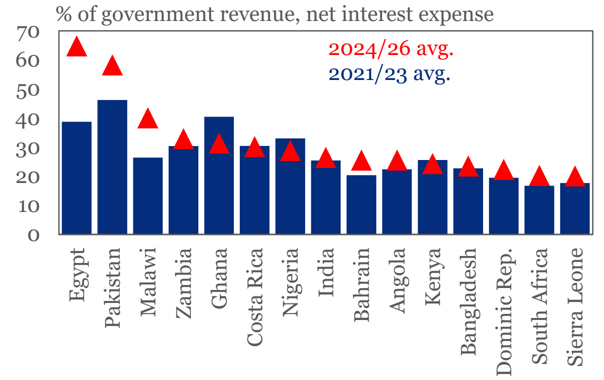
Source: IIF Global Debt Monitor

Chart 5: Mature markets – Government interest expense



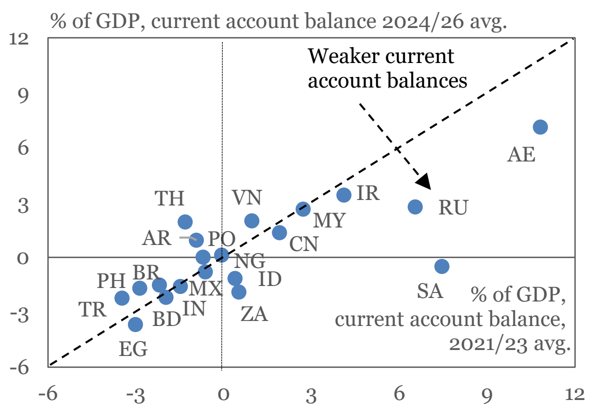
Source: IMF, IIF

Chart 6: Emerging markets – Government interest expense



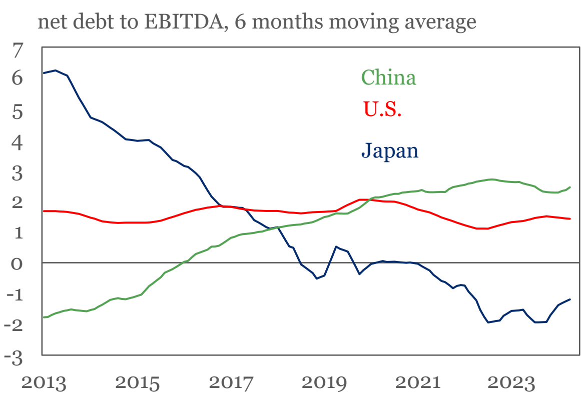
Source: IMF, IIF

Chart 7: Strength of the USD could pose significant external funding pressures on countries with large and deteriorating current account deficits



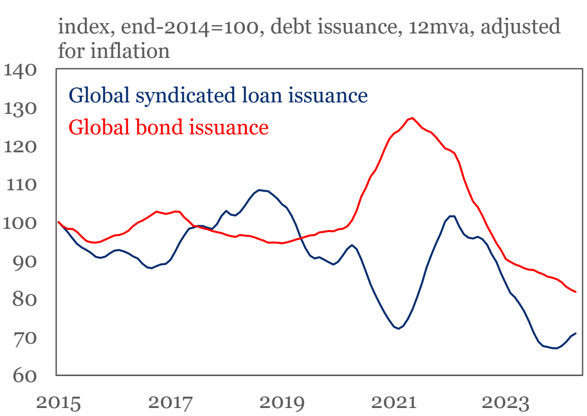
Source: IMF, IIF

Chart 8: Slow but steady deterioration in Chinese corporates' balance sheets



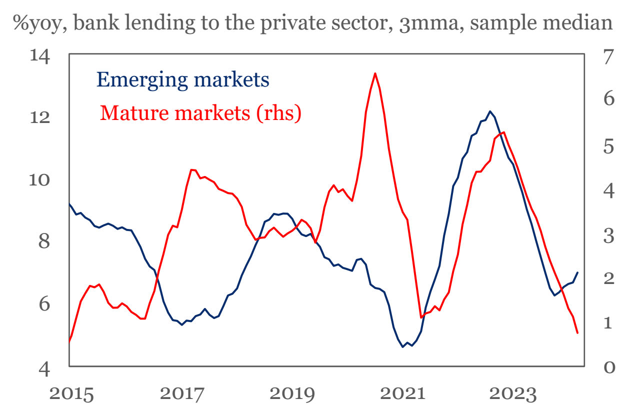
Source: Bloomberg, IIF

Chart 9: Syndicated-loan activity has bottomed out



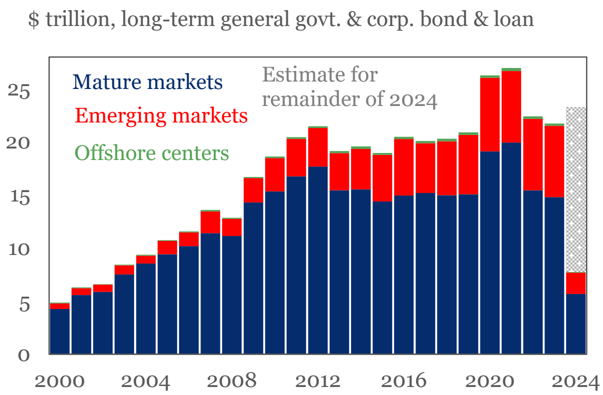
Source: Bloomberg, Haver, IIF

Chart 10: Growth in bank lending in mature markets remains muted



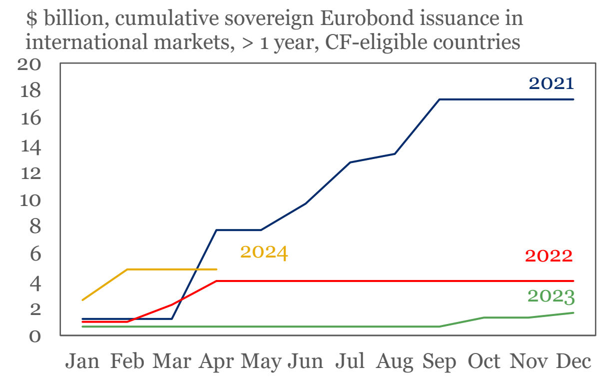
Source: Haver, IIF

Chart 11: Long-term bond and loan issuance activity remains above pre-pandemic levels



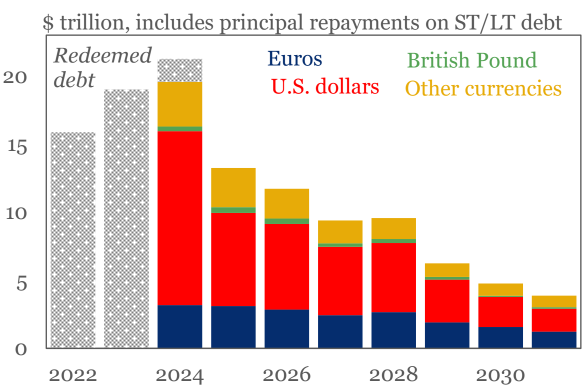
Source: Bloomberg, IIF

Chart 12: The momentum in Eurobond issuance by low-income countries earlier this year has been relatively short-lived



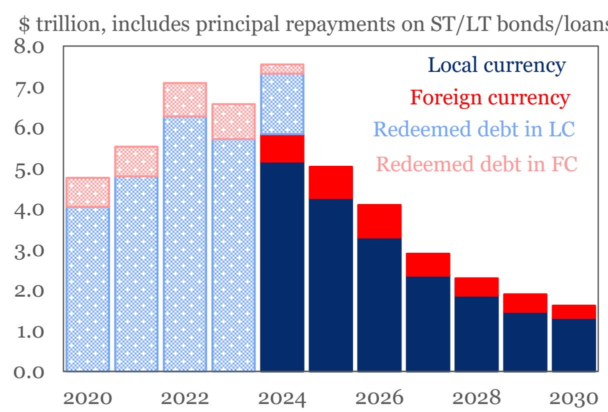
Source: Bloomberg, IIF

Chart 13: Mature markets face some $20 trillion of bond and loan redemption until year-end



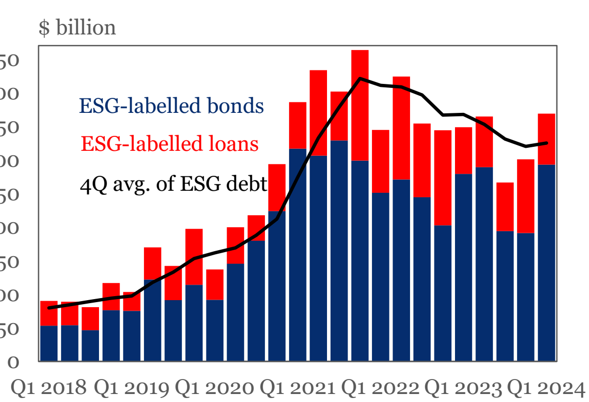
Source: Bloomberg, IIF

Chart 14: EMs face some $6 trillion of bond and loan redemption until year-end



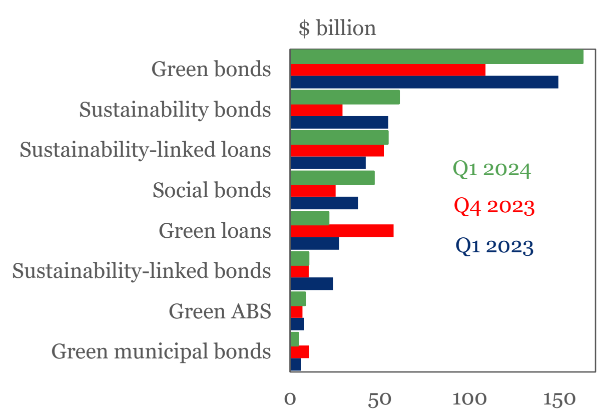
Source: Bloomberg, IIF

Chart 15: Early 2024 witnessed a sharp rebound in ESG debt issuance...



Source: Bloomberg, IIF

Chart 16: ...largely driven green bonds



Source: Bloomberg, Bloomberg NEF, IIF

Table 2: Total Global Debt by Sector

% of GDP	Households		Non-financial corporates		Government		Financial Sector	
	Q1 2024	Q1 2023	Q1 2024	Q1 2023	Q1 2024	Q1 2023	Q1 2024	Q1 2023
Global	**61.1**	**62.3**	**95.0**	**96.2**	**98.1**	**95.9**	**78.4**	**79.6**
Mature markets	**69.4**	**71.7**	**88.6**	**91.8**	**115.0**	**114.1**	**104.6**	**106.3**
U.S.	71.8	74.6	76.6	80.1	120.0	116.0	71.1	76.1
Euro Area	53.2	55.7	93.6	98.1	93.2	93.5	109.2	108.9
Japan	63.0	64.6	114.8	116.4	231.0	239.8	197.9	193.4
UK	78.1	81.6	63.1	67.0	85.6	87.2	157.7	159.2
Emerging markets	**47.2**	**46.6**	**105.6**	**103.7**	**69.8**	**65.6**	**34.7**	**35.0**
EM Asia	59.7	58.8	137.0	134.0	78.9	74.0	42.4	43.0
China	63.7	62.3	170.6	165.8	85.5	78.4	44.9	45.9
Hong Kong	92.5	96.3	261.0	282.1	81.3	78.9	129.7	153.6
India	38.1	36.9	56.2	54.3	83.9	82.9	3.1	2.8
Indonesia	16.3	16.0	23.5	22.7	38.8	38.9	7.1	6.4
Malaysia	69.1	66.5	89.4	87.2	64.4	61.8	30.2	23.5
Pakistan	2.1	2.3	10.2	11.2	75.5	76.5	1.0	1.4
Philippines	12.3	13.4	27.2	29.3	56.6	56.9	7.1	9.1
S. Korea	98.9	101.5	123.0	123.0	47.1	47.2	87.0	87.3
Singapore	46.1	45.3	127.2	119.4	172.0	158.1	160.7	146.7
Thailand	91.8	91.6	86.3	86.0	55.2	53.8	35.2	31.2
Vietnam	26.7	26.8	105.3	103.6	34.0	34.5	4.2	4.5
EM Europe	20.2	20.0	61.2	61.8	32.1	31.8	15.8	15.5
Czech Republic	31.8	32.1	48.5	48.6	40.7	41.0	33.9	33.8
Hungary	16.6	18.1	73.1	80.6	66.7	64.8	12.9	11.8
Poland	23.4	25.2	36.6	39.7	47.5	44.7	25.7	24.8
Russia	22.2	20.8	77.8	74.7	21.1	21.3	9.9	8.5
Türkiye	11.4	11.8	47.4	52.1	34.2	34.6	16.1	18.3
EM Latam	24.1	24.8	39.4	39.5	68.7	63.2	24.8	25.5
Argentina	3.3	4.0	16.8	18.1	117.7	78.9	14.5	9.8
Brazil	33.2	34.1	51.6	50.7	83.8	81.6	39.1	42.6
Chile	45.7	46.2	94.0	90.8	40.5	34.6	55.7	46.3
Colombia	25.9	27.8	30.3	31.5	61.3	62.9	3.7	4.8
Mexico	15.8	16.0	20.2	21.4	39.6	40.1	8.8	9.7
Peru	13.8	13.8	43.1	43.9	32.3	33.4	7.9	8.2
AFME	26.3	23.9	37.1	37.0	50.1	47.6	17.3	15.3
Egypt	7.6	8.5	19.1	21.6	81.4	80.5	6.1	5.4
Ghana	2.7	2.6	11.2	14.4	86.3	89.2	0.8	4.2
Israel	41.6	43.3	68.1	69.4	61.1	59.4	10.9	11.0
Kenya	10.3	11.2	20.7	19.9	74.6	69.5	1.6	2.1
Nigeria	19.7	7.8	6.2	10.7	46.4	41.7	12.1	6.2
Saudi Arabia	31.6	29.6	42.9	37.3	27.4	24.0	5.6	4.5
South Africa	34.4	34.4	31.5	33.3	75.2	72.0	35.3	32.2
UAE	22.7	20.4	56.9	56.8	30.5	30.6	47.5	45.2

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 Q1-2024	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	166.4	4.2	3.4	0.5	84.6	1.0	0.7	0.3	42.1	2.8	2.0	0.2	63.7	0.0
Hong Kong	53.1	207.9	160.4	25.4	72.8	8.4	4.5	1.7	42.5	87.2	66.1	7.7	89.7	2.7
India	49.2	7.0	5.9	1.0	81.6	2.3	2.3	0.0	0.9	2.2	1.8	0.2	38.1	0.0
Indonesia	15.7	7.7	7.2	0.4	30.6	8.1	6.5	1.3	2.7	4.4	4.0	0.1	16.0	0.3
Malaysia	71.4	18.0	15.1	0.1	62.0	2.5	2.0	0.0	16.3	13.9	11.0	0.7	68.8	0.3
S. Korea	101.9	21.0	16.8	3.5	46.0	1.1	0.5	0.5	68.3	18.8	14.6	2.3	98.1	0.8
Singapore	67.2	60.0	54.3	2.6	172.0	0.0	0.0	0.0	48.7	112.0	69.4	13.7	39.4	6.7
Thailand	73.9	12.4	11.3	0.4	54.8	0.4	0.4	0.0	27.4	7.8	6.8	0.3	91.6	0.2
EM Europe														
Czech Republic	19.7	28.8	0.8	27.5	40.1	0.6	0.0	0.6	28.1	5.7	0.3	5.4	31.6	0.1
Hungary	37.7	35.4	11.0	24.4	47.5	19.3	8.0	10.7	5.4	7.5	2.0	5.4	16.5	0.1
Poland	23.7	12.9	0.7	12.1	35.4	12.1	2.6	9.1	16.2	9.4	2.3	6.4	18.9	4.5
Russia	65.9	11.9	5.1	6.3	18.1	3.0	2.5	0.5	8.6	1.3	1.2	0.1	22.2	0.0
Türkiye	25.4	22.0	8.4	13.2	12.4	21.8	14.3	4.4	2.1	14.0	10.3	3.5	11.4	0.0
EM Latam														
Argentina	9.2	7.6	7.5	0.1	41.4	76.2	58.8	2.2	13.4	1.1	0.5	0.1	3.2	0.1
Brazil	38.3	13.3	11.9	1.1	79.7	4.1	3.4	0.7	33.5	5.6	5.1	0.1	33.2	0.0
Chile	58.3	35.7	34.4	0.4	23.1	17.4	12.2	5.3	47.2	8.5	7.0	0.2	43.4	2.3
Colombia	20.6	9.7	8.8	0.4	40.1	21.2	18.2	0.7	0.4	3.2	3.1	0.1	25.8	0.1
Mexico	8.3	11.9	10.1	1.2	33.3	6.3	4.8	1.1	6.6	2.2	1.8	0.2	15.8	0.0
Peru	22.8	20.3	19.8	0.4	16.0	16.3	14.1	2.1	2.7	5.2	5.0	0.2	12.9	0.9
AFME														
Israel	49.5	18.6	12.8	5.1	51.1	9.9	6.8	2.7	8.1	2.8	2.6	0.2	41.4	0.1
S. Arabia	34.4	8.6	8.1	0.4	17.6	9.8	9.8	0.0	0.4	5.2	4.4	0.1	31.6	0.0
S. Africa	16.8	14.6	8.5	4.2	68.1	7.1	6.9	0.2	25.8	9.5	4.3	1.2	34.1	0.3

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

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