

# Global Debt Leverage

## Near-Term Crisis Unlikely But Risks Rising

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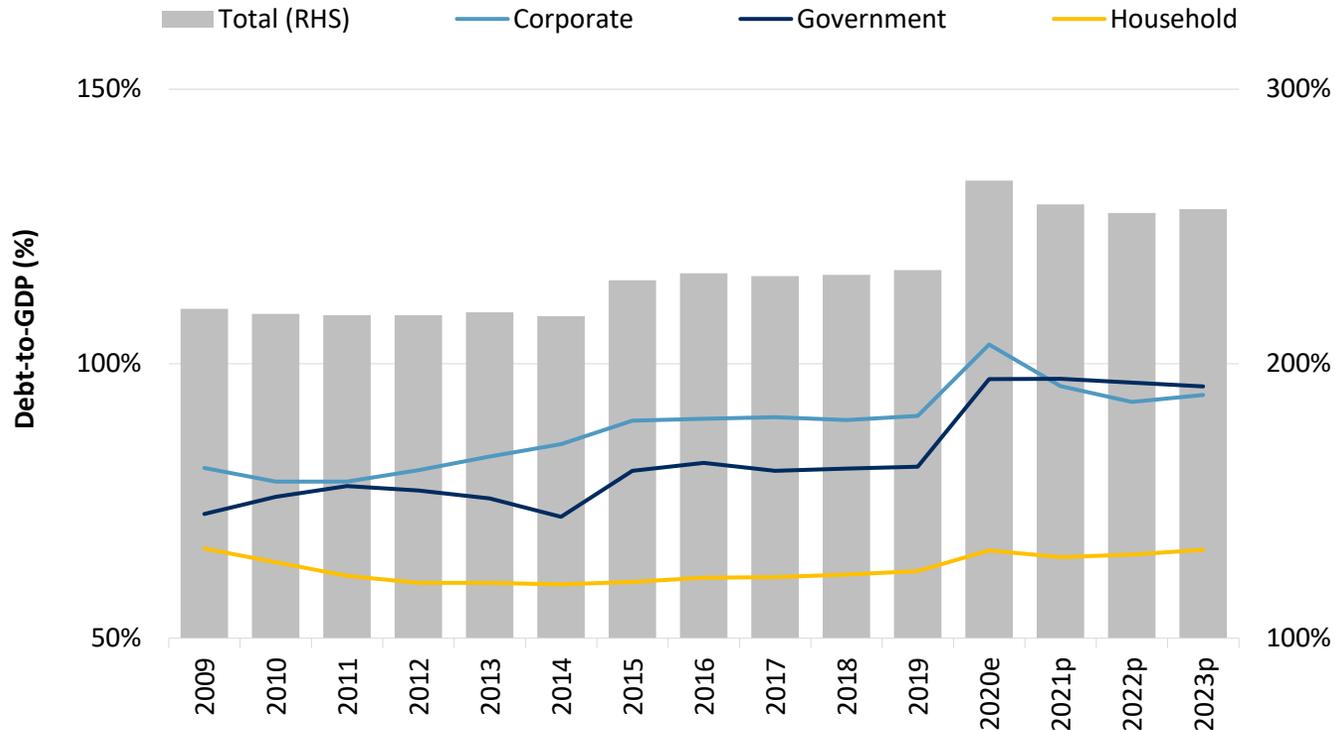


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# Global Debt Leverage | Likely To Ease, But At Above Pre-COVID Level

## Post-COVID Leverage At Higher Level



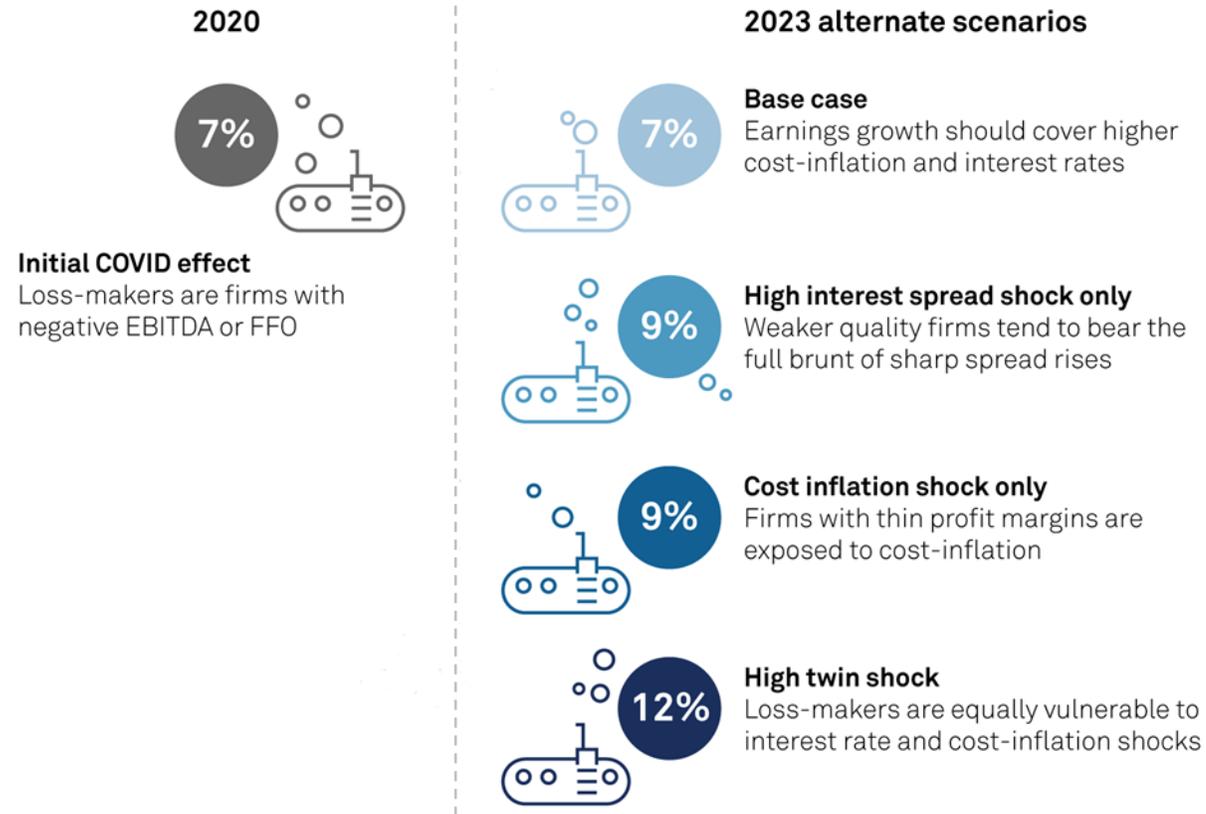
e—estimate. p—projection. Source: S&P Global Ratings. [Global Debt Leverage: Near-Term Crisis Unlikely, Even As More Defaults Loom](#), March 10, 2021.

### Debt leverage trend

- **Record debt, near-term crisis unlikely**
  - Estimated global debt was a record \$201 trillion in 2020, equivalent to 267% of GDP.
  - But a near-term debt crisis is unlikely given the global economy recovery, vaccine rollout, credit availability, demand rebound.
- **Leverage growth to ease after 2020**
  - We expect corporate earnings to recover, governments to rebuild balance sheets, and households to reduce borrowings.
- **Market repricing risk**
  - Investors' reset of risk-return expectations could see financial and real asset repricing, debt servicing costs rise, and funding accessibility dry up.
  - A rapid and volatile reset path is a worry.

# Global Debt Leverage | Stress Test Shows Loss-Makers Doubling

## Cost Inflation And Spread Shock Could Almost Double Loss-Making Corporates



EBITDA --Earnings before interest, tax, depreciation and amortization.  
FFO--Funds from operations (EBITDA less net interest expense less tax).  
Source: S&P Global Ratings.  
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### Stress test scenario

- **Inflation, interest rate shock.** Our stress test of ~10,000 firms (~31% of global corporate debt ) shows that a twin shock of 1970s cost inflation and GFC-level spreads could see, by 2023:
  - Loss-making firms almost double to 12%.
  - Highly indebted firms up a 1/5 to ~40%.
- **For most, debt-maturity profile is a cushion.**
  - Corporates' pushing out of debt maturities cushions them against short-term liquidity risks (interest-cost rises over next few years).
  - Over time, such rises will increasingly weigh on debt sustainability as more debt matures.
- **Cost inflation more worrying for most.**
  - Corporates may not be able to pass on all input-cost increases to customers.
  - Even moderate inflation can exceed the effect of a high interest scenario.

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