

IMF Warns of Record High Global Debt. Towards Another Economic Meltdown?

By [Nick Beams](#)

Theme: [Global Economy](#)

Global Research, October 08, 2016

[World Socialist Web Site](#) 7 October 2016

Eight years after the eruption of the global financial crisis, the conditions are being created for another meltdown of even bigger proportions, amid rising geo-political and economic tensions between the major capitalist powers.

This is the implication of three reports issued by the International Monetary Fund in preparation for its annual meeting, which begins in Washington today. The *World Economic Outlook* reported lower growth in all the advanced economies, underscoring the lack of a genuine recovery in the global economy, while two financial reports pointed to mounting instability resulting from the injection by central banks of trillions of dollars into the world financial system.

Taken together, the reports point to the underlying economic contradictions that are fuelling a series of crises. These include slowing world trade and rising protectionist measures, the row between the US and the European Union over tax payments by Apple, the move by the US Justice Department to impose a \$14 billion penalty on Deutsche Bank, the breakdown in talks on the US-sponsored Transatlantic Trade and Investment Partnership, and accusations from politicians in Berlin that the US is waging “economic warfare.”

The increasing instability of the financial system was highlighted in the IMF’s twice-yearly *Fiscal Monitor* report issued on Wednesday. It found that debt in the nonfinancial sector of the world economy had doubled in nominal terms since the turn of the century, reaching \$152 trillion last year and continuing to rise.

Current debt levels are 225 percent of global gross domestic product (GDP), rising from 200 percent in 2002. The IMF said that while there was no consensus on how much debt was too much, current debt levels, of which two-thirds is privately held, were at a record high.

There was a need for deleveraging, but the current low-growth environment was making “the adjustment very difficult, setting the stage for a vicious feedback loop in which lower growth hampers deleveraging and the debt overhang exacerbates the slowdown.”

The report said the debt overhang problem, characterised as a situation in which the borrower’s debt service liability exceeds its future repayment capacity, “resides squarely within advanced economies’ private sector.”

While the IMF did not make the point, its analysis exposes the claim that too much government spending is the cause of mounting financial problems. According to the *Fiscal Monitor* report, the easing of restrictions on credit meant that nonfinancial private-sector debt in the major economies increased by 35 percent of GDP in the years leading up to the

global financial crisis.

Significantly, there was a rapid rise in household debt in this period. The report did not point to the reasons, but two major factors undoubtedly were the low level of wage increases, forcing increased borrowing, and the surge in house prices in a number of countries, itself a product of credit expansion. The IMF noted that in some countries—Australia, Canada and Singapore—private-sector debt had continued to accumulate at a fast pace.

The report found that public debt, which makes up one-third of the total, had risen from 70 percent of global GDP to 85 percent. But almost half of this increase was a result of low nominal growth. In other words, far from the rise in government debt being the result of “profligate” spending on health, pensions and social services—the mantra of those demanding austerity—its expansion is rooted in the ongoing stagnation following the 2008 financial crisis.

A second financial report, *Global Financial Stability*, drew out the growing risks to the financial system. It said that while short-term risks had abated since the previous report in April, “the medium-term risks are building.” The continued slowdown in global growth had prompted financial markets to expect a continued period of low inflation, low interest rates and “an even longer delay in normalizing monetary policy.”

It warned, however, that some monetary policies, such as negative interest rates, were “reaching the limits of their effectiveness, and the medium-term side effects of low rates are rising for banks and other financial institutions.”

Pension funds and insurance companies, which are dependent for their financing on investment in long-term government bonds, were particularly adversely affected, with their solvency “threatened by a prolonged period of low interest rates.”

Financial institutions as a whole in the advanced economies faced a “number of cyclical and structural challenges and need to adapt to the new era of low growth and low interest rates.” If these challenges were left unaddressed, it “could undermine financial soundness.”

These problems go to the very heart of the capitalist financial system—the banks. The report stated that weak profitability could “erode banks’ buffers and undermine their ability to support growth.” Even if there were a cyclical recovery in the economy, this would not resolve the problems of low profitability. “Over 25 percent of banks in advanced economies (about \$11.7 trillion in assets) would remain weak and face significant structural challenges,” with the problems concentrated in the European and Japanese banking sector.

“In the euro area,” the report stated, “excessive nonperforming loans and structural drags on profitability require urgent and comprehensive action.” Reducing nonperforming loans and addressing deficiencies in capital were a priority.

The mounting financial problems, while concentrated in the advanced economies, are not confined to them. The report found that in emerging market economies, around 11 percent of corporate debt, over \$400 billion, was held by firms with “weak repayment capacity.”

High debt levels and excess capacity made it difficult for these companies to “grow out of the problem” which left them “sensitive to downside external or domestic developments,” and if interest rates started to rise and earnings fell, “such a scenario would exhaust bank

capital buffers in some emerging markets.”

Another area of concern was China, where “continued rapid credit growth... and expanding shadow banking products pose mounting risks to financial stability.” The rapidly growing financial system “is becoming increasingly leveraged and interconnected, and a variety of innovative vehicles and products are adding to the complexity.” Corporate debt at risk remained high and “underlying risks from non-loan credit exposures add to these challenges.”

The three reports point to the deepening contradictions of the global capitalist system. The IMF has insisted that in the absence of any cyclical rise of the economy, monetary policy alone cannot bring about a recovery, and government infrastructure and other spending is necessary to provide a boost.

But such spending would increase debt and would depend on interest rates remaining low. Ultra-low interest rates, however, are increasingly undermining the stability of banks and other financial institutions, creating the conditions for another financial crisis, which will further inflame the already high level of geo-political and economic conflict.

The original source of this article is [World Socialist Web Site](#)
Copyright © [Nick Beams](#), [World Socialist Web Site](#), 2016

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Nick Beams](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca