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Out of balance: What's next for growth, wealth, and debt?

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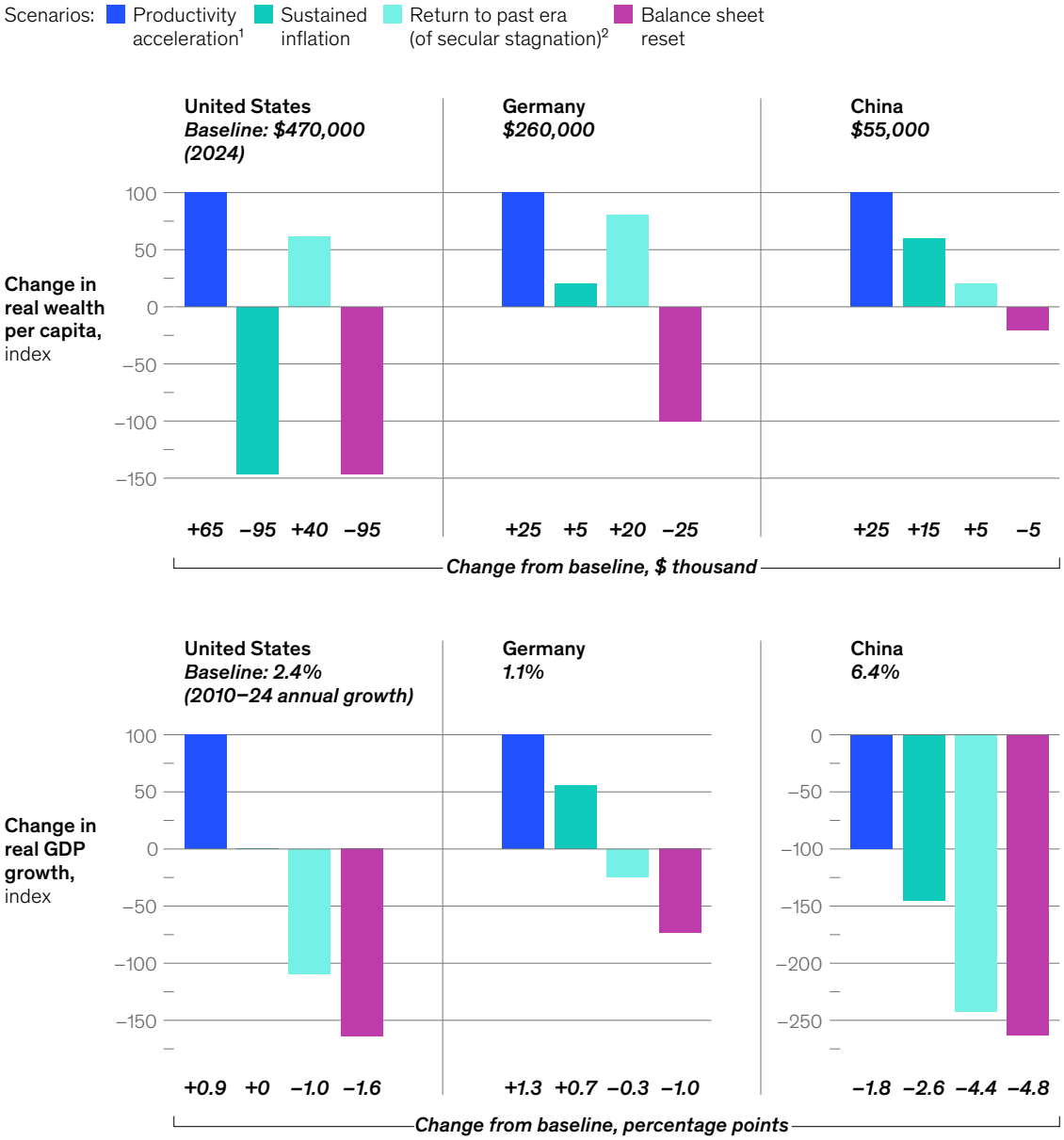
At a glance

- **Is the world out of financial balance? By many measures, certainly.** Global wealth is $600 trillion, but it has outgrown GDP since 2000 as paper gains powered its rise. Every $1 in investment generated $2 in debt. The top 1 percent of people hold at least 20 percent of wealth. Cross-border imbalances are growing.
- **We constructed a 'global balance sheet' of the world's assets and liabilities as a new lens into the economy.** It points to four scenarios. Only productivity acceleration, in large part from technology, restores balance while maintaining wealth and growth. Other scenarios are less rosy. Sustained inflation would shrink real wealth and debt relative to GDP but weaken household budgets and business planning. Worse, a balance sheet reset may trigger wealth losses and years of scant growth. Another alternative is to stay out of balance and return to secular stagnation with super-low interest rates—but also tepid growth and ongoing risks.
- **In the United States, up to $160,000 in per capita wealth is at stake by 2033.** Productivity acceleration would raise annual GDP growth to 3.3 percent, about one percentage point above recent levels, and boost per capita wealth by $65,000. Wealth would erode by $95,000 in the sustained inflation or balance sheet reset scenarios.
- **Europe stands to fall further behind unless productivity accelerates.** For example, if Germany stays in secular stagnation, its gap to US GDP per capita could widen by $19,000.
- **Chinese household wealth could expand by half or drop slightly.** In all our scenarios, both wealth and GDP would grow more slowly than in a generation. The productivity acceleration scenario requires structural changes and a major step-up in consumption.
- **Each country has a hefty productivity prescription, and what happens in one may affect the others.** Europe would have to invest, China consume, and the United States save—on the order of 3 to 7 percent of GDP. The balance sheet helps measure whether policy changes, business developments, and consumer trends add up to enough. This lens may inform corporate strategy better than point forecasts or daily financial and political noise.

Productivity acceleration is the best outcome for wealth and growth; other scenarios trade off one or both.

Change in real wealth and annual growth in real GDP, 2024–2033,
index (100 = change from baseline in each economy's productivity acceleration scenario)



[1]In China, this scenario refers to a continuation of fast growth rather than a true acceleration, which would be seen in the United States and Europe.
[2]The name of this scenario is based on the past era for the United States and Europe. In China, this is a secular-stagnation scenario, representing a shift from the past era of high growth toward one of low demand, growth, and interest rates.
Source: CEIC; China National Bureau of Statistics; Damodaran data; Destatis; IHS Markit; OECD; Oxford Economics; People's Bank of China; Wind; World Bank; McKinsey Global Institute analysis

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Introduction

The global economy is out of balance, with wealth, debt, and cross-border liabilities growing faster than the productive output that underpins them.

This is not new—it has been happening for much of the 21st century. Low interest rates resulted in a proliferation of debt and asset price appreciation that wasn't fully backed by economic growth. The situation has corrected modestly since a 2021 pandemic peak, but the lack of balance remains.

Where everything goes from here is uncertain, and not just in the short term, which is the usual intense focus of financial markets and forecasters. And so our research constructs a "global balance sheet"—adding up assets and liabilities across corporations, households, and governments—and considers how it might move compared to GDP growth over time. A balance sheet lens casts into sharp relief the precarity of the moment while also revealing what is truly at risk over the longer term.

The stakes are high. The optimism priced into many US asset classes likely requires robust economic growth to maintain lofty valuations and avoid an erosion of pension assets and other wealth. Europe has significant growth and income to gain if it escapes its current low-growth path. Unless China makes structural changes to boost consumer demand, households could experience stagnating wealth for the first time in a generation.

The best outcome by far is for productivity to accelerate, allowing countries to grow their way to balance sheet health. Along the way, wealth imbalances may correct as more people earn enough to save and invest. Financial and trade imbalances may recede as saving and spending achieve greater parity across economies.

Alternatively, the economy could tip into one of three more problematic directions. Worst among them, a balance sheet reset—asset price corrections and prolonged deleveraging—could lead to recession or lengthy stagnation. Japan saw something like this in the 1990s. China's real estate bubble could presage a similar situation there, while some observers call out risk lurking in US debt and high equity values.

Another potential direction, sustained inflation, has historically reduced balance sheet pressures but comes with many undesirable side effects. The United States has experienced a combination of high inflation and accelerated productivity in recent years.

Finally, there is secular stagnation, involving a mix of low investment, excess savings, and ultra-low interest rates. Asset values rise but growth is sluggish, so imbalances persist. This played out in the United States and Europe for much of this century and might be reemerging in Europe. China may be headed in the same direction.

The broad prescriptions to achieve productivity acceleration are known. The United States: Save more (and borrow less). Europe: Invest more. China: Consume more. One economy's success or failure in delivering these outcomes affects the chances for others to achieve the most positive scenario. But how does one know whether an economy is on the right track, or how far off it might be? This report gives practical indicators to consider and quantifies the impact on wealth and growth across scenarios for each economy.

CHAPTER 1

The world entered 2025 wealthier than ever, but out of balance

Entering 2025, the world's wealth reached $600 trillion, its highest amount ever. Yet much of its growth came from asset price increases, funded by a proliferation of debt, rather than new saving and investment. As a multiple of global GDP, the global balance sheet peaked in 2020 and has come down modestly since (see sidebar "What is the global balance sheet?"). But it remains elevated by historic standards.

There are further imbalances: High and rising asset values concentrate wealth in the hands of those who have assets to begin with but aren't as much help to those who rely on broad-based income gains. And rising financial imbalances between countries reflect persistent trade deficits and surpluses that have become a focal point in the global economy.

As a multiple of global GDP, the global balance sheet peaked in 2020 and has come down modestly since. But it remains elevated by historic standards.

Sidebar

What is the global balance sheet?

MGI uses the global balance sheet as a lens for understanding global wealth and growth, building on data and insights from national statistics offices, international organizations, and academic research.[1]

The global balance sheet tallies up assets and liabilities across households, governments, and both nonfinancial and financial corporations (Exhibit A). It consists of three interlocking components: (1) financial assets and liabilities held by financial institutions, which help intermediate those held by other sectors; (2) financial assets and liabilities held by households, governments, and nonfinancial corporations, often used to finance real assets with capital or net worth held by other people or institutions; and (3) real assets and the net worth resulting from creating those assets.

MGI began tracking the global balance sheet in 2021, constructing it by adding up all real assets in the economy (including, for example, real estate, infrastructure, machinery, intellectual property, and others such as commodities) as well as all financial assets and liabilities (including, for instance, equity, bonds, loans, currency and deposits, and pensions)—all valued at market prices. This "global" picture incorporates data from a set of major economies that represent more than 70 percent of global GDP.[2]

By the end of 2024, the global balance sheet had quadrupled since 2000 to reach $1.7 quadrillion in total assets, consisting of $620 trillion in real assets, $570 trillion in financial assets outside the financial sector, and $520 trillion within the financial sector.[3] Globally, net worth, also referred to as wealth, is equal to real assets; all financial assets have a corresponding liability, and thus cancel out and do not count toward global wealth.[4] Global net worth has mirrored the rise of the global balance sheet, nearly quadrupling from $160 trillion in 2000 to $600 trillion in 2024, or from 4.7 to 5.4 times GDP.

Balance sheets range in size and composition across countries (Exhibits B and C), a subject we explore throughout this research. The US balance sheet, for example, has a relatively greater share of financial assets compared with real ones. Its real assets relative to GDP are among the lowest in our sample of countries, which could signal that the United States has higher capital productivity or has underinvested (or some combination of the two).

At the national level, net worth is equal to real assets plus net financial positions with the rest of the world. Countries that are net borrowers from the rest of the world, such as the United States, thus have net worth lower than real assets, and vice versa. As of 2024, national net worth ranged from 3.9 times GDP in the United States to 9.4 times GDP in South Korea.

[1] See *The rise and rise of the global balance sheet: How productively are we using our wealth?* McKinsey Global Institute, November 2021; *Global balance sheet 2022: Enter volatility?* McKinsey Global Institute, December 2022; *The future of wealth and growth hangs in the balance*, McKinsey Global Institute, May 2023.

[2] The "global" figure reflects a GDP-weighted average of 21 countries: Australia, Belgium, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, Poland, Romania, Spain, Sweden, the United Kingdom, and the United States. They account for about 71 percent of global GDP as of 2024.

[3] Despite US equity prices having increased faster than GDP since the end of 2024, we anticipate that these numbers have remained generally similar.

[4] Real assets and net worth, and financial assets and liabilities, are not perfectly equal in our "global" picture, because we extrapolate from a sample of countries.

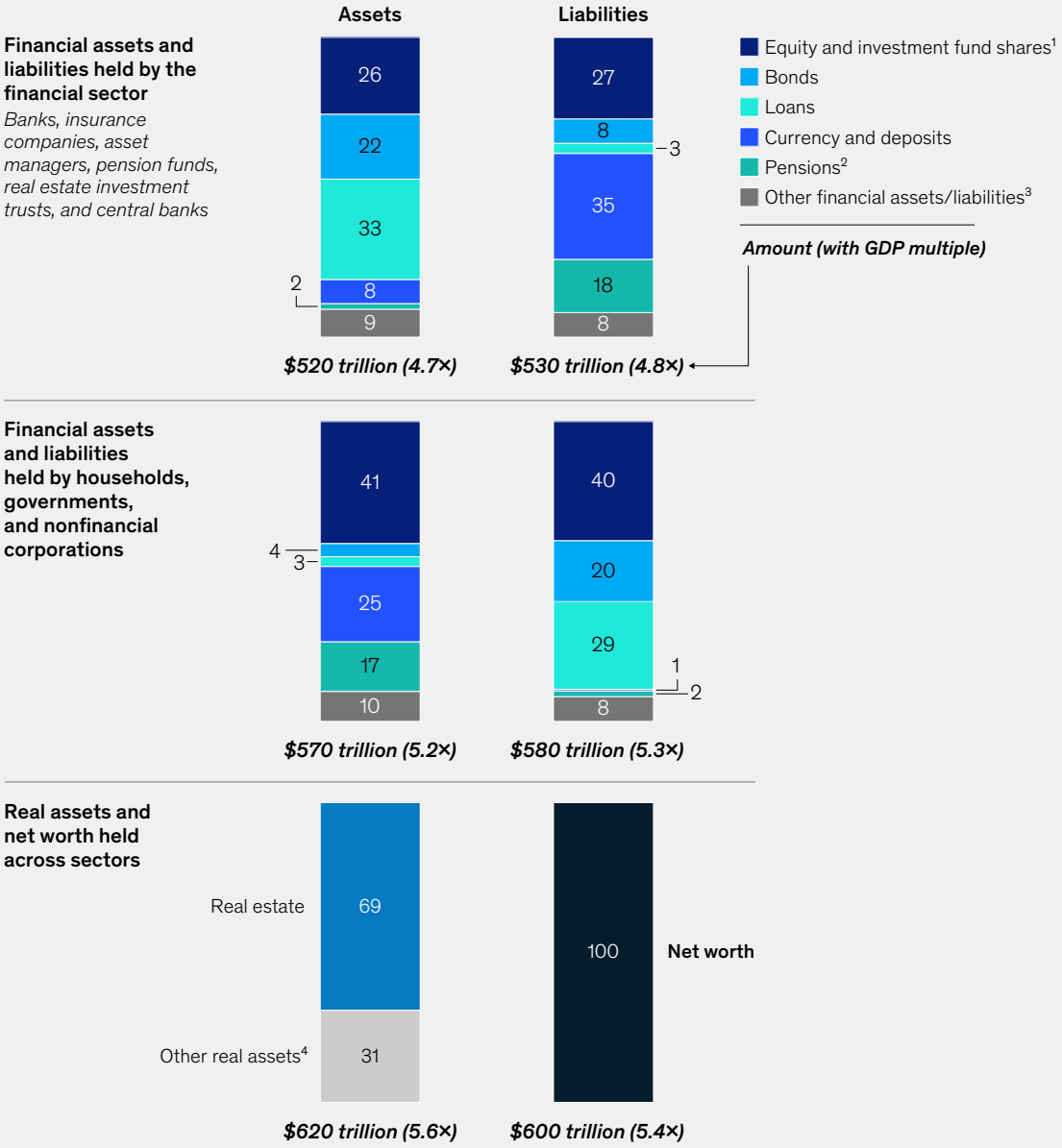
Sidebar (continued)

What is the global balance sheet?

Exhibit A

We created a global balance sheet to take stock of economic wealth and health.

Composition of three interlocking balance sheets, 2024, %



Note: The global average is an extrapolation derived from a weighted average of 21 economies accounting for approximately 70% of global GDP as of 2024. Figures may not sum to 100%, because of rounding.
[1]Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds.
[2]Pensions, not including pay-as-you-go systems, are considered a form of financial assets and liabilities; funded pensions with defined contributions are often baskets of stocks, fixed-income securities, property, and cash, among other financial assets. Also includes life insurance and annuity entitlements as well as non–life insurance technical reserves.
[3]Includes monetary gold and special drawing rights (SDRs), receivables, and payables, among others.
[4]Includes productive assets such as infrastructure, machinery and equipment, and intellectual property products; inventories and valuables; minerals and energy reserves; and other produced and nonproduced nonfinancial assets.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; McKinsey Global Institute analysis

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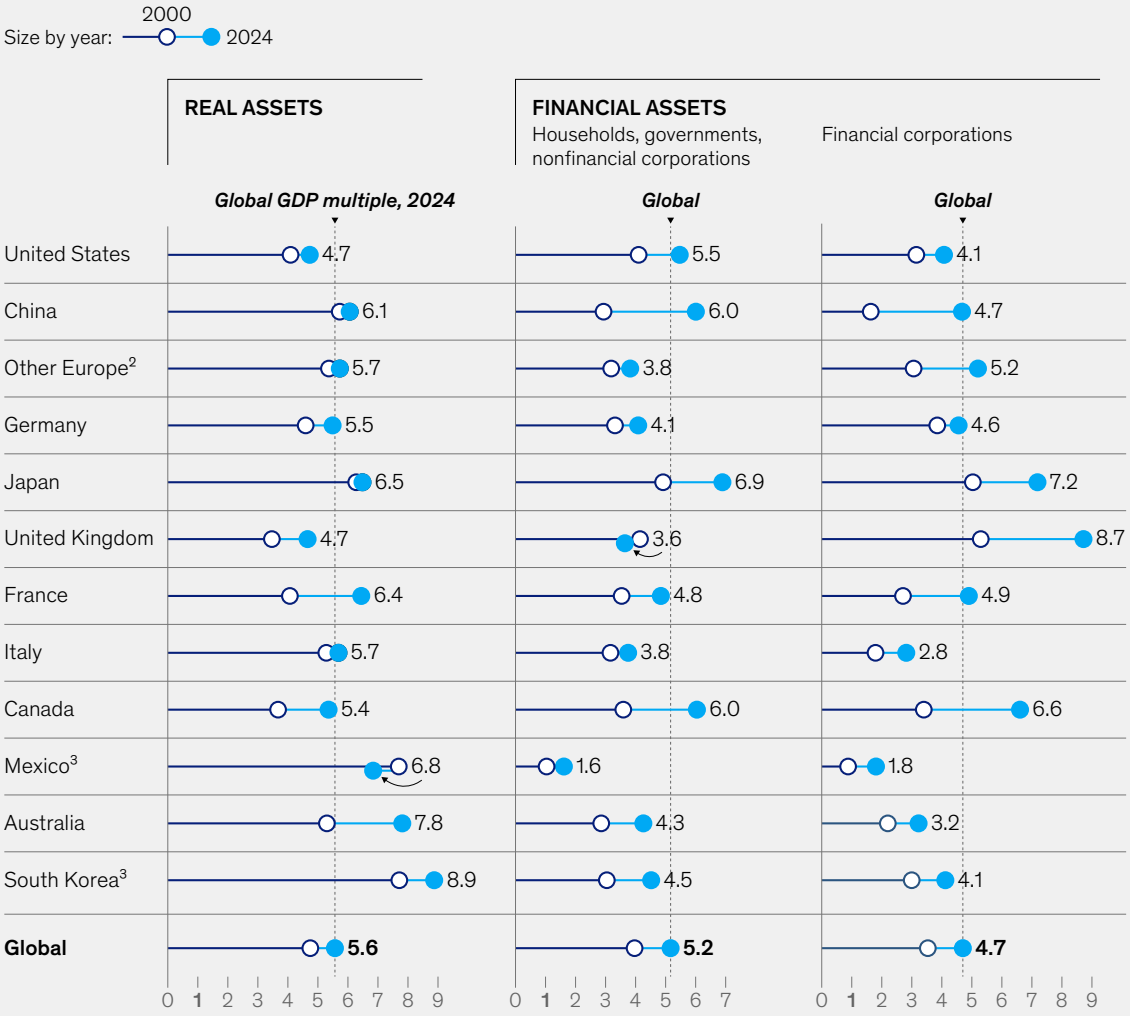
Sidebar (continued)

What is the global balance sheet?

Exhibit B

Balance sheets of major economies differ in their sizes and rates of growth.

Balance sheet items' size by economy,[1] GDP multiple



[1]Countries ordered by USD GDP size in 2024.
[2]"Other Europe" includes Belgium, Czech Republic, Denmark, Finland, Ireland, Netherlands, Poland, Romania, Spain, and Sweden.
[3]Due to data availability, Mexico data refers to 2003 and 2024, and South Korea data refers to 2008 and 2024.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Li & Zhang (2017); IHS Markit; Herd (2020); Federal Reserve; OECD; People's Bank of China; McKinsey Global Institute analysis

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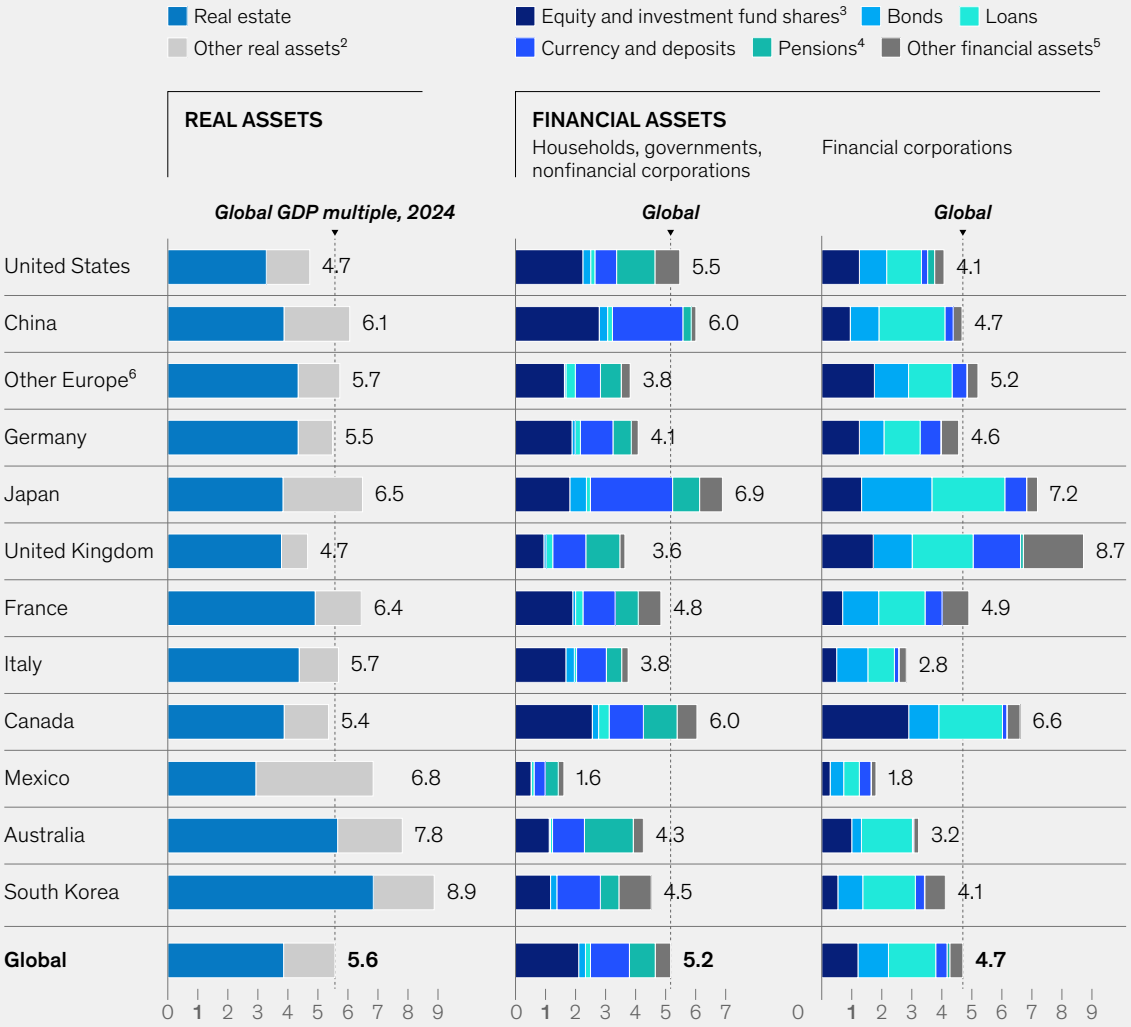
Sidebar (continued)

What is the global balance sheet?

Exhibit C

They also differ in their asset compositions.

Balance sheet items' composition by economy,[1] GDP multiple



[1]Countries ordered by USD GDP size in 2024. [2]Includes productive assets such as infrastructure, machinery and equipment, and intellectual property products; inventories and valuables; minerals and energy reserves; and other produced and nonproduced nonfinancial assets. [3]Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds. [4]Pensions, not including pay-as-you-go systems, are considered a form of financial assets and liabilities; funded pensions with defined contributions are often baskets of stocks, fixed-income securities, property, and cash, among other financial assets. Also includes life insurance and annuity entitlements, as well as non–life insurance technical reserves. [5]Includes monetary gold and special drawing rights (SDRs), receivables, and payables, among others. [6]"Other Europe" includes Belgium, Czech Republic, Denmark, Finland, Ireland, Netherlands, Poland, Romania, Spain, and Sweden.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; McKinsey Global Institute analysis

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The global balance sheet remains elevated on a historical basis

From 2000 to 2021, the global balance sheet—the summation of the world's assets, liabilities, and wealth—quadrupled in dollar value, expanding much faster than the real economy, as measured by GDP. Debt and deposits grew, as did asset prices for real estate, equities, and bonds.[1] Productivity and productive capital did not keep pace (Exhibit 1). Inflation served as a pressure valve of sorts starting in 2022, devaluing assets and debt in real terms, although these remain elevated compared to historical levels.

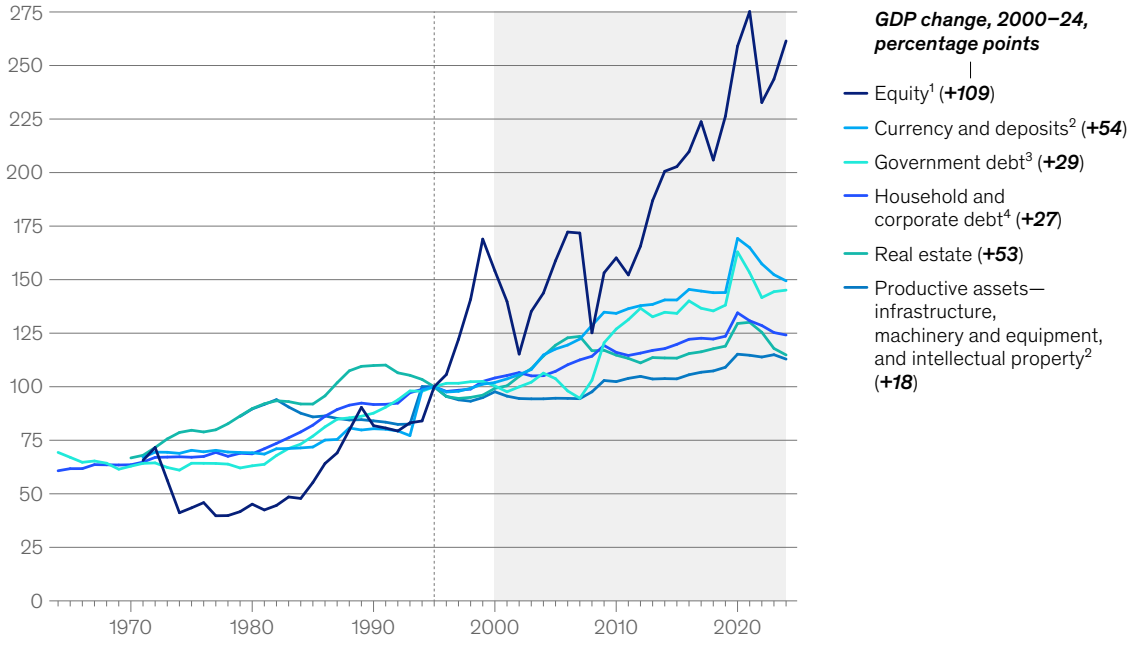
Healthy balance sheets contain a large stock of productive assets, such as machinery and equipment, infrastructure, and intellectual property. When these increase, so does an economy's growth potential and its ability to sustain long-term wealth creation.[2] Such robust wealth expansion also generates collateral for further financing of investment and encourages consumption.

When the balance sheet outruns the underlying economy, it exposes weaknesses.[3] When real estate and equity values rise faster than GDP, capital may disproportionately go to asset repurchases, sometimes with a lot of leverage. This pushes up valuations further but leaves the economy deprived of the type of investment that generates long-run growth.

Exhibit 1

The global balance sheet has outpaced GDP for several decades.

Largest items on the global balance sheet, GDP multiple, index (1995 = 100)



Note: The global average is an extrapolation derived from a weighted average of 21 economies accounting for approximately 70% of global GDP as of 2024.
[1]Includes shares in publicly and privately held corporations.
[2]The increase in value between 1993 and 1994 is due to the addition of Japan to the sample; Japan accounts for about 20% of the aggregate GDP of the selected economies in 1994 and has a much higher value for productive capital/GDP, driven by high values for "structures other than buildings" (ie, infrastructure).
[3]Includes loan and bond liabilities for general government, including central and local governments. OECD values at current market prices; see technical appendix for further details.
[4]Includes loan and bond liabilities for households and nonfinancial corporations.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; McKinsey Global Institute analysis

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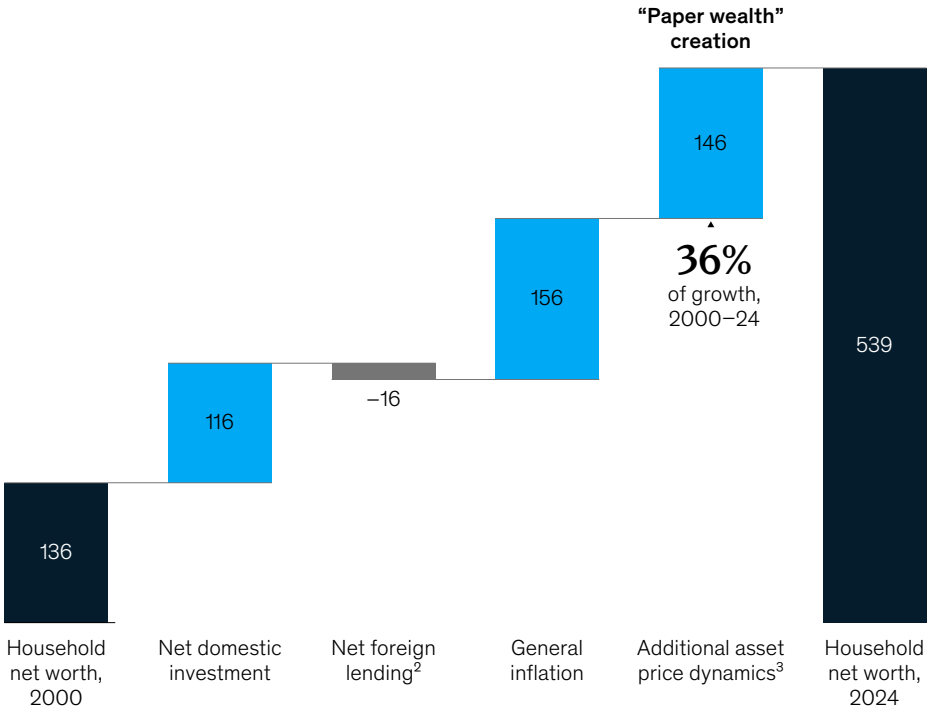
Indeed, households (which own nine-tenths of global wealth) gained $400 trillion in wealth between 2000 and 2024, but by our calculation, 36 percent of those gains were on paper, or decoupled from the real economy (Exhibit 2). Cumulative general inflation, which maintains real values of wealth, added about 40 percent. This means less than 30 percent reflected actual new investment in the economy—or net domestic investment. For each $1.00 of net new investment over the past 25 years, the world created $3.50 of new household wealth.

Having more wealth entices families to spend more and thus boosts growth. Even if people don't draw on it directly, the confidence from rising retirement funds or home values may make it easier to justify taking on new debt to buy a car, do a home renovation, take a vacation, or make some other big-ticket purchase.

Exhibit 2

One-third of global household wealth growth in 2000–24 was on paper.

Decomposition of growth in global household net worth, 2000–24, $ trillion[1]



Note: The global average is an extrapolation derived from a weighted average of 21 economies accounting for approximately 70% of global GDP as of 2024.
[1]In nominal terms, at market exchange rates.
[2]Globally this figure should be equal to zero. We have a non-zero figure as we have a sample of countries used to extrapolate a global total rather than complete global data. This number signals that our sample countries collectively borrow from the rest of the world.
[3]Includes the portion of growth stemming from asset price growth in excess of inflation and the collective decrease of net worth in other sectors, which represents unbacked claims owed to the household sector.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; McKinsey Global Institute analysis

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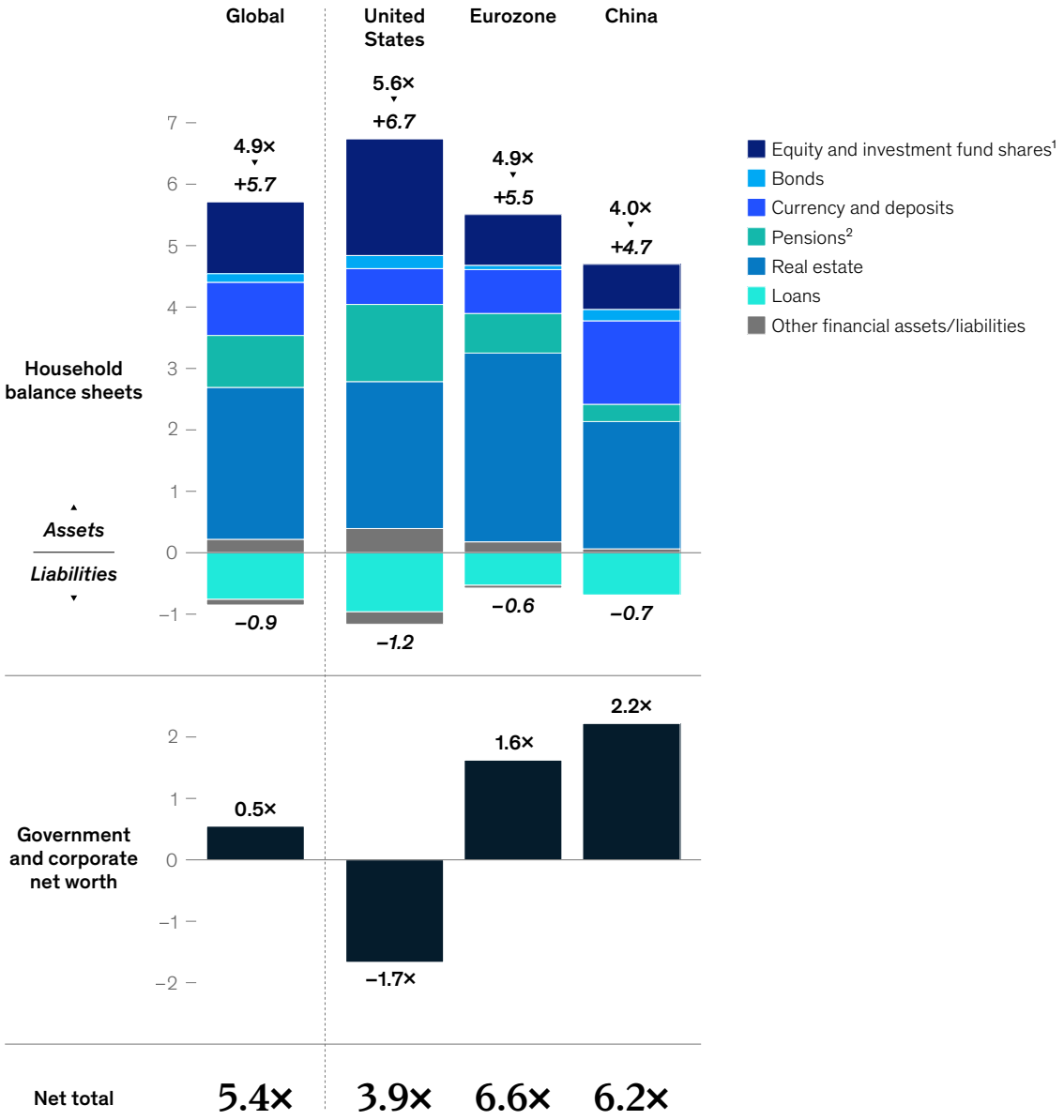
This “wealth effect” varies by economy and is particularly pronounced in the United States.[4] One reason for this may be the difference in wealth composition. Strikingly, in the United States, more than one-third of household net worth is held in equities.[5] European households have more in real estate, while in China, currency and deposits play a greater role (Exhibit 3).

Exhibit 3

Household wealth varies in quantity and composition across economies.

Decomposition of net worth, 2024, GDP multiple



[1]Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds.
[2]Pensions, not including pay-as-you-go systems, are considered a form of financial assets and liabilities; funded pensions with defined contributions are often baskets of stocks, fixed-income securities, property, and cash, among other financial assets. Also includes life insurance and annuity entitlements as well as non–life insurance technical reserves.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People’s Bank of China; McKinsey Global Institute analysis

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But rising wealth on paper creates risk, leaving households and the economy exposed to swings in value. In just one sign of potential wealth risks, the value of US corporate equity liabilities far exceeds the value of the assets owned by corporations, excluding their debt—the ratio stands at 1.8.[6]

While the world added nearly $4.00 of new wealth for each $1.00 of new investment across all sectors, it also created $1.90 of new debt. Mounting debt imposes a drag on future growth. When households, governments, or corporations need to make large debt repayments, that means less money for consumption and investment. In extreme cases, a debt crisis can lead to defaults as well as distressed sales of assets, and consequently to sharp price corrections. It may also prompt a long period of depressed growth.[7]

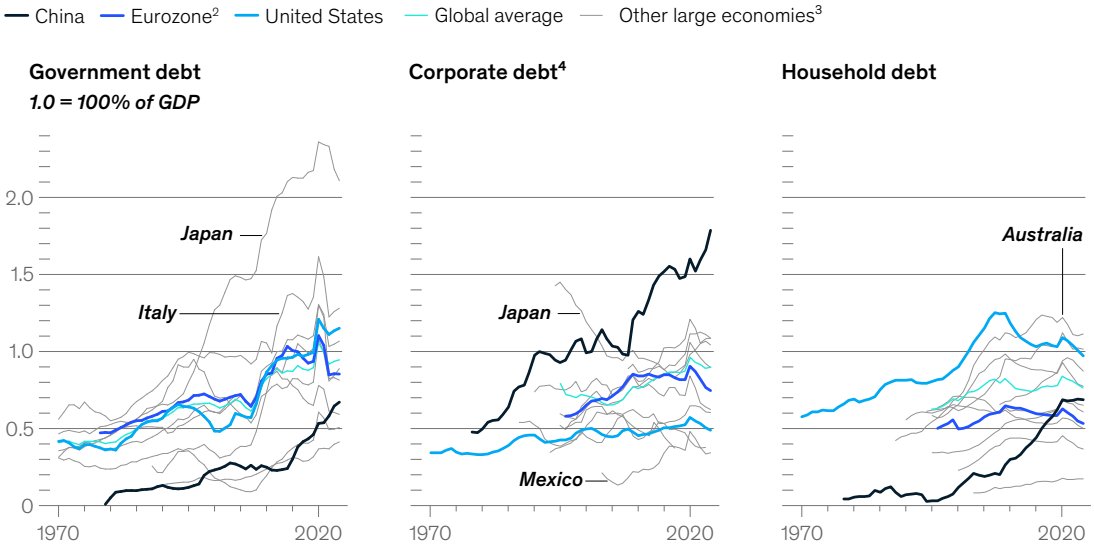
Global debt is close to all-time highs, at 2.6 times GDP.[8] There are some particularly big pockets of it, including Japan's government debt and China's nonfinancial corporate debt, which are near unprecedented levels (Exhibit 4). US government debt also rose sharply after the financial crisis and then the COVID-19 pandemic (see sidebar "When does government debt become unsustainable?"). Households, by contrast, have on average seen stable debt levels relative to GDP. A major exception is China, where household debt has grown by about 60 percentage points of GDP since 2000.[9]

Soaring lending, together with quantitative easing programs—in which central banks purchase government bonds—also increased the volume of money in circulation. This can spur inflation if households decide to spend more, as they did after the pandemic.

Exhibit 4

Pockets of debt—for example, in China's corporations—are high by global and historical standards.

Debt across sectors and economies,[1] GDP multiple



Note: The global average is an extrapolation derived from a weighted average of 21 economies accounting for approximately 70% of global GDP as of 2024.
[1]Includes bond and loan liabilities. OECD values at current market prices; see technical appendix for further details.
[2]Average across eurozone countries, weighted by GDP.
[3]Other large economies include Australia, Canada, France, Germany, Italy, Japan, Mexico, South Korea, and the United Kingdom.
[4]Excludes debt of financial corporations.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; IMF; OECD; People's Bank of China; McKinsey Global Institute analysis

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Sidebar

When does government debt become unsustainable?

There is no universally agreed-upon threshold for government debt sustainability, especially for high-income economies issuing debt in their own currencies. In 2010, economists Carmen Reinhart and Kenneth Rogoff pointed to 90 percent of GDP as the threshold of public debt that harms growth.[1] Since then it has grown significantly in many countries, especially during the pandemic. Economist Jason Furman has noted that countries including the United States and Japan are demonstrating they have more fiscal space than previously thought.[2]

Understanding the trajectory of public debt involves three central variables: (1) the level of primary (noninterest) deficits as a share of GDP, (2) nominal GDP growth (g), and (3) the rate on long-term government bonds (r).[3] When growth exceeds interest rates, there is some fiscal space to run primary deficits without growing the public debt-to-GDP ratio, since the cost the government is paying to borrow money is less than the growth of the economy. The larger the gap between g and r, the greater space for deficits without growing the debt-to-GDP ratio.[4] In the United States, the ratio of public debt to GDP remained relatively stable in the 2010s even though the government was running persistent deficits, because interest rates were much lower than nominal GDP growth rates.

Today, g is still greater than r across economies, but with recent upticks in interest rates in the United States and Europe and downticks in growth projections in China, the gap between g and r is much closer to zero than it has been in the past decade and a half (exhibit).

A likely driver of this development is an increase in the natural rate of interest, r-star (r*). This is the inflation-adjusted short-term interest rate that would prevail when an economy is operating at its full potential without any pressure on the aggregate price level to rise (or deflate) continuously. It is a key guide for monetary policy.

While r* is unobservable, estimates of r* for the United States and Europe have been declining since at least the 1980s, dropping (on average) to less than 1 percent in the 2010s.[5] However, there are multiple reasons to believe that r* is structurally higher today than in the 2010s, due to higher planned investments, lower planned saving, and higher risk (especially from higher public debt).[6] As a result, deficits could come under pressure and the debt-to-GDP ratio could escalate.

Exhibit

The gap between interest rates and growth may be closing across major economies.

Nominal interest rates and growth projections, %

[1]This data series shows, for each year, the compounded annual growth rate for the next 5 years.
Source: Bundesbank; Federal Reserve; IMF; Oxford Economics; McKinsey Global Institute analysis

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1 Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a time of debt," *American Economic Review*, volume 100, number 2, May 2010.
2 Jason Furman, "Eight questions—and some answers—on the US fiscal situation," in *Strengthening America's Economic Dynamism*, Melissa S. Kearney and Luke Pardue, eds., Aspen Institute, 2024.
3 See Olivier Blanchard, *Fiscal Policy Under Low Interest Rates*, The MIT Press, 2023; Jason Furman and Lawrence H. Summers, "Who's afraid of budget deficits?" *Foreign Affairs*, March/April 2019; for an international comparative perspective, see Philipp Heimberger, "Public debt and r-g risks in advanced economies: Eurozone versus stand-alone," *Journal of International Money and Finance*, September 2023.
4 The primary (noninterest payment) deficit for stability is roughly equal to g minus r, multiplied by the debt-to-GDP ratio. See Jason Furman, "Eight questions—and some answers—on the US fiscal situation," in *Strengthening America's Economic Dynamism*, Melissa S. Kearney and Luke Pardue, eds., Aspen Institute, 2024.
5 See The Holston-Laubach-Williams model, Measuring the natural rate of interest model, The New York Fed, accessed September 2025; and Olivier Blanchard, "Secular stagnation is not over," Peterson Institute for International Economics, 2023.
6 See, for example, Gianluca Benigno et al., "Quo vadis, r*? The natural rate of interest after the pandemic," Bank for International Settlements, 2024.

Wealth distributions remain heavily skewed

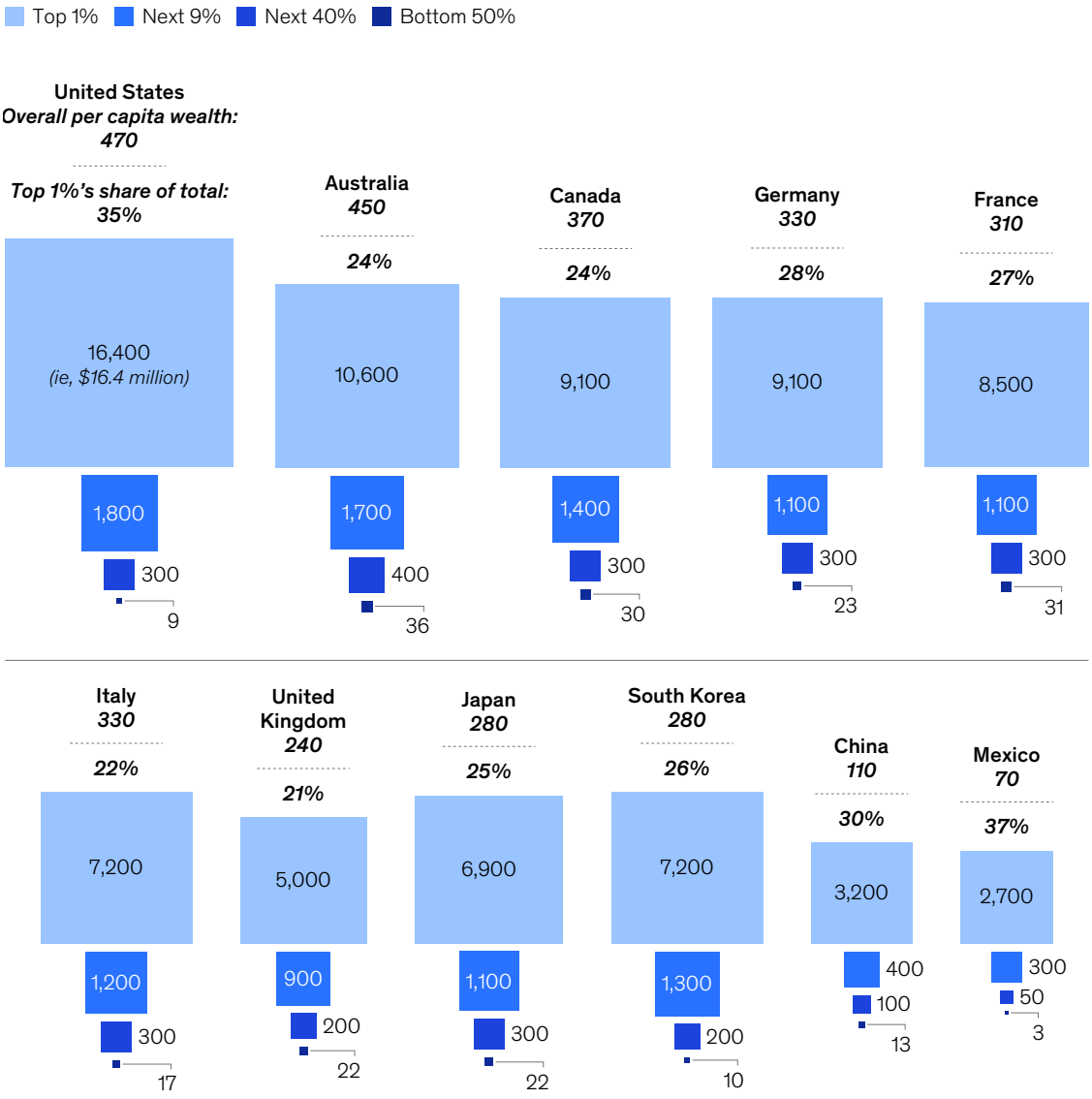
When asset values grow faster than the economy, those who hold assets become wealthier, entrenching inequality. Households that don't hold assets may have a harder time acquiring them to build a foundation of wealth. To bridge that large gap in wealth, they would need growth in their paychecks, a byproduct of a vibrant economy, to outstrip wealth gains for a lengthy period.

In 2024, the top 1 percent of households by wealth across major economies held at least 20 percent of national wealth (Exhibit 5).[10] In the United States, the top 1 percent held 35 percent of wealth—

Exhibit 5

Wealth inequality remains entrenched across major economies.

Implied per capita wealth by percentile,[1] $ thousand (purchasing-power-parity adjusted, 2024)



[1]Applies 2023 data on wealth distribution to 2024 nominal household wealth.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; World Inequality Database; McKinsey Global Institute analysis

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equivalent to 5 percent of global wealth in purchasing-power-parity terms (and 9 percent in dollar terms).[11] Overall US per capita wealth was $470,000, but with wide variation: The top 1 percent owned $16.5 million, and the bottom 50 percent as little as $9,000. In purchasing-power terms, this was less than the average wealth of a household in the bottom 50 percent in China.

Wealth concentration at the top can lead to less broad-based and lower household demand. It may also amplify political polarization, which can, in turn, lead to lower trust, higher policy uncertainty, and thus slower growth.

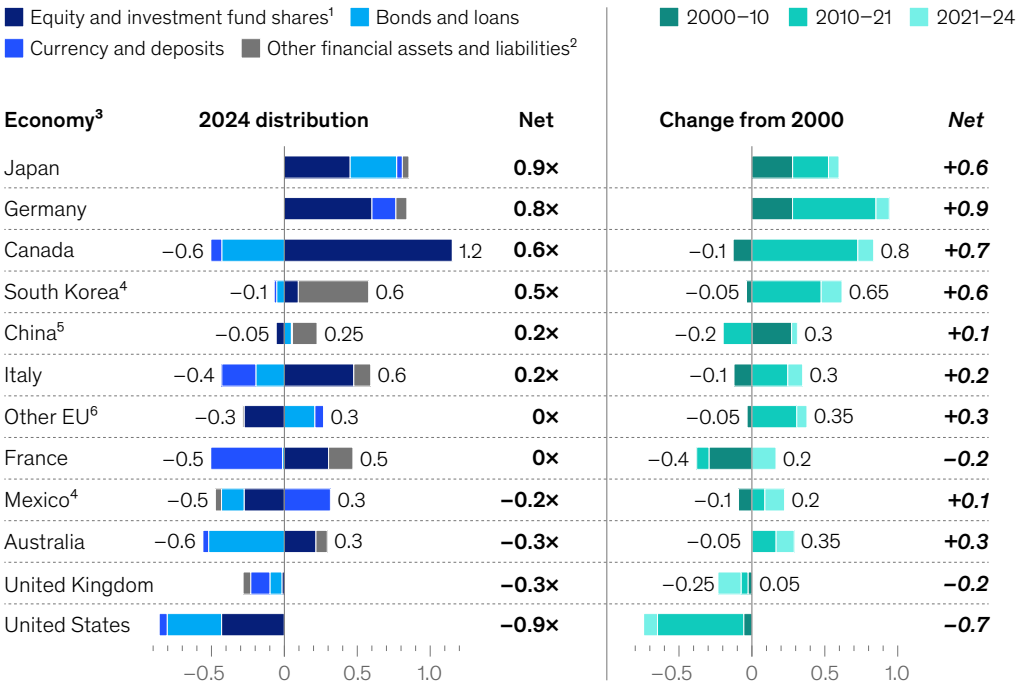
Cross-border financial imbalances have also grown

Financial imbalances across borders have widened, with the United States on the deficit side and Germany, Japan, Canada, South Korea, and China on the surplus side (Exhibit 6). Imbalances arise from accumulated trade deficits or, equivalently, domestic savings deficits. If a country like the United States spends more on imports than it earns on exports, it has to finance that deficit by borrowing from abroad or selling assets to foreign owners (see sidebar "Three ways to see a trade deficit"). [12]

Exhibit 6

Net international investment positions have widened over time across countries.

Distribution of net financial assets, GDP multiple



[1]Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds. [2]Includes pensions, monetary gold and special drawing rights (SDRs), receivables, and payables, among others. [3]Countries listed in order of 2024 IIP position. [4]Due to data availability, starting year for Mexico is 2003; for South Korea, 2008. [5]2024 financial asset and liability figures reflect midyear estimates. [6]"Other EU" includes Belgium, Czech Republic, Denmark, Finland, Ireland, Netherlands, Poland, Romania, Spain, and Sweden.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; McKinsey Global Institute analysis

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Sidebar

Three ways to see a trade deficit

The simplest way to look at a trade deficit is that a country like the United States imports more goods and services than it exports. This is reflected in monthly trade data that is the focus of policymakers and financial markets. Purchase fewer foreign products and sell more abroad, and the deficit shrinks. Tariffs have gained attention as one way to address the import side of this, by potentially making imports more expensive than US-made goods and services.

But the forces behind these trends go deeper and involve how households, businesses, and governments consume, save, and invest.

A second way to consider a trade deficit involves savings and investment. When a country consumes and invests domestically more than it saves in the private and public sectors, it has to attract foreign capital to finance that gap and must import goods and services, meaning a current account or trade deficit. The flip side holds for countries with trade surpluses: They save more than they consume and invest, and have an outflow of capital. There can be many reasons for this, including demographics (aging economies tend to save more and invest less); financial systems (economies with well-developed financial markets and strong financial asset performance may feel less need to save out of income); social security systems (less precautionary saving when they are more developed); or policy and interventions on currencies, capital flows, or the competitiveness of exporting versus domestic sectors.

Finally, these saving and investment imbalances flow through financial markets. In the United States, lower domestic saving relative to investment has driven a net incurrence of liabilities (exhibit). For example, as the US government runs persistent budget deficits, it issues debt. Other countries that save more than they consume, like Germany and China, use some of their excess savings to purchase US government bonds and other dollar-denominated assets. At the same time, optimism on the US economy has meant more foreign investment into the country, both directly and via portfolio investment. This means a higher incurrence of equity liabilities for corporations and supports a higher overall level of investment. A major inflow of saving from abroad, primarily via purchases of US bonds and equities, in turn, may push down interest rates, driving up asset values and debt on balance sheets.

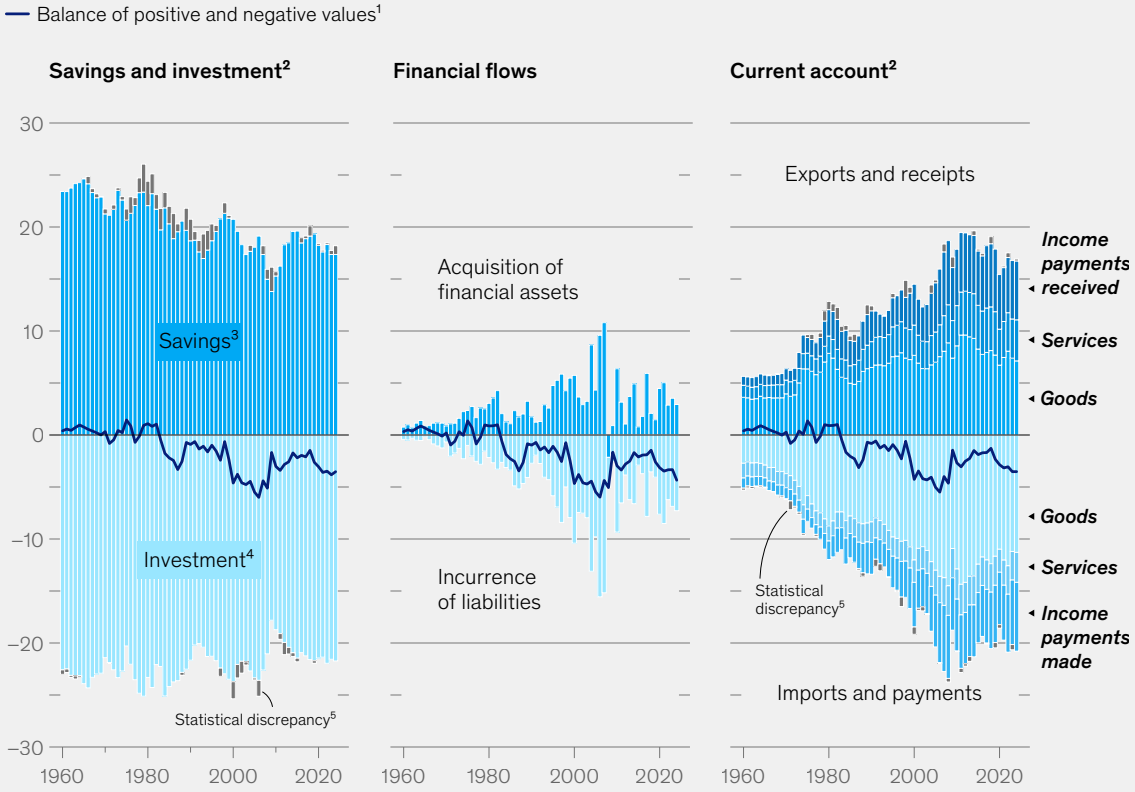
Sidebar (continued)

Three ways to see a trade deficit

Exhibit

Balances of savings and investment mirror both financial flows and trade deficits.

US international economic balances as a share of US GDP, %



[1]Balance represents US net lending (if value is positive) or net borrowing (if value is negative). [2]For simplification, capital account transactions have been included in domestic investments (for the savings and investment chart) and in income payments (for the current account chart). Capital account payments are mostly associated with transactions of nonproduced capital goods (such as land) and both inflows and outflows are very small (normally less than 0.1% of GDP). [3]Savings represent gross domestic saving (without netting out capital consumption). [4]Investment represents gross capital formation (including change in inventories). [5]The statistical discrepancy is the difference between the estimate of net lending (or borrowing) computed from capital flows or current account flows and that computed from financial flows. In principle, the three measures should be identical; in practice, they are not, due to differences in source data, timing of recorded flows, and other statistical differences.
Source: US Bureau of Economic Analysis; McKinsey Global Institute analysis

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Closing these disparities requires shifting from domestic demand to net exports for countries with trade deficits and from exports to domestic demand for those running surpluses—or, put another way, raising savings in deficit countries and investment in surplus ones. It's through this channel that addressing these imbalances may influence wealth and economic growth.[13]

The largest international investment surpluses, relative to GDP, appear on Japan's and Germany's balance sheets. Why these two? There isn't a single reason but rather a confluence of factors that add up: Both are known for historical trade surpluses, for their propensity to save and build wealth abroad to offset shrinking populations at home, and for their inability to unlock investment opportunities domestically.[14]

China also has a positive net international investment balance but one much smaller relative to its economy, at over 15 percent of GDP. This may seem surprising, given its persistent trade surpluses,

especially with the United States and in manufactured goods. China's net international investment stock has fallen from a peak of 40 percent of GDP in 2008, as its GDP grew rapidly and its official holdings of reserve assets plateaued.[15] Official data also suggests that China holds fewer foreign equities than economies like Germany or Japan, meaning diminished opportunities for valuation gains.[16]

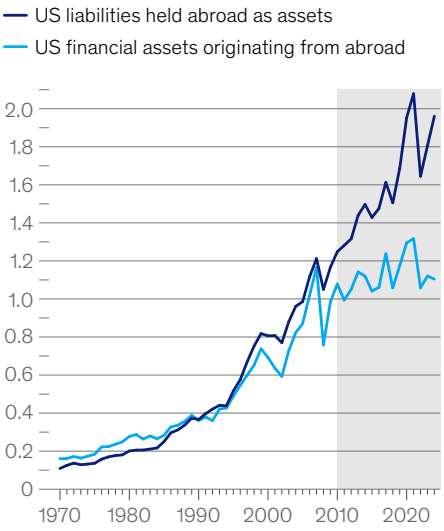
The United States has the highest negative position among our sample countries at about 90 percent of GDP, up 70 percentage points over the past 25 years. This reflects both persistent trade deficits and global demand for US assets, including Treasuries, largely perceived to be among the safest assets.[17] These factors are well known and much discussed.

The biggest contributing factor, however, is somewhat counterintuitive: the outperformance of US equities. US stocks have grown 10 percent faster than those in China, and more than double those in the eurozone and Japan since 2010. As a result, the value of US equities held by people outside the United States rose much faster than the value of what the United States owns abroad (Exhibit 7). This explains 70 percent of the jump in the negative position since 2010.

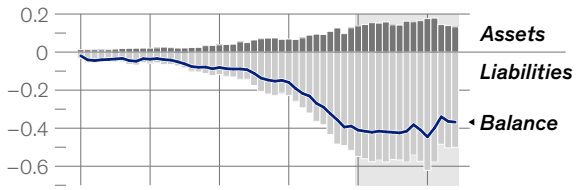
Exhibit 7

US ownership of international assets stagnated, while US equity value increases boosted the value of foreign-held US assets.

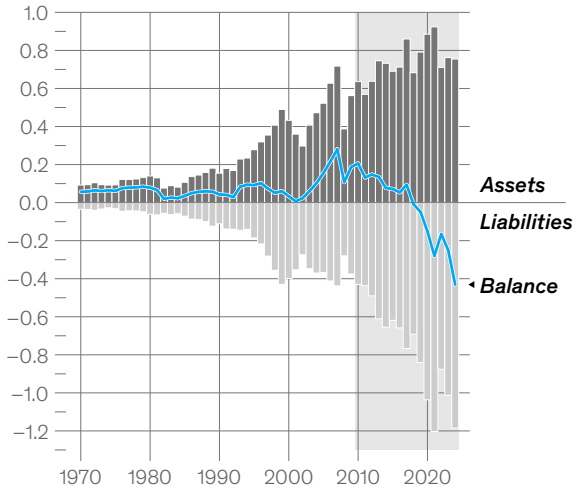
US liabilities held abroad and US financial assets originating from abroad, GDP multiple



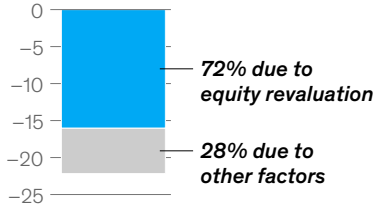
Bonds on US balance sheet



Equities and investment fund shares on US balance sheet[1]



Decomposition of cumulative change in international investment position, 2010–24, $ trillion



[1]Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds. Both foreign direct and portfolio investment is included in this category.
Source: Federal Reserve Board; McKinsey Global Institute analysis

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Following the pandemic, asset values have grown more slowly than GDP—but imbalances remain

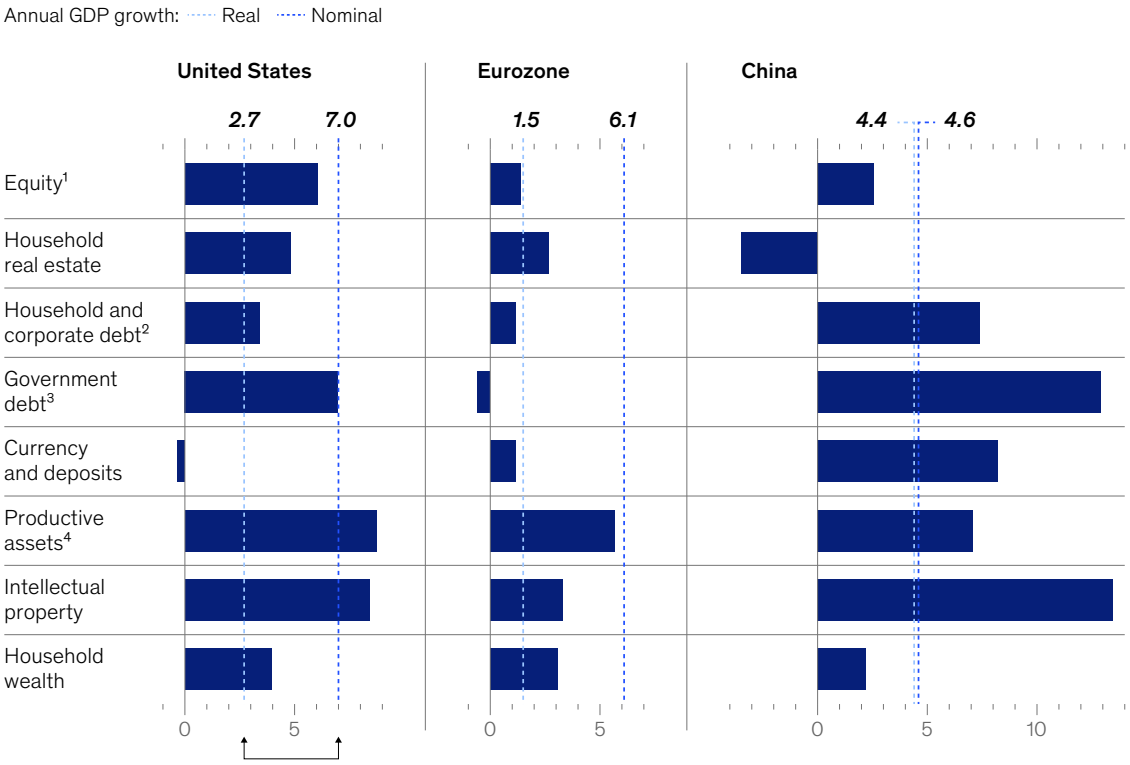
Since 2021, important balance sheet items grew more slowly than nominal GDP (Exhibit 8), reversing some of the trend of the past 25 years and restoring some balance to this ratio.

In the United States and eurozone, much of this was due to higher inflation. Its negative economic effects aside, inflation mathematically reduces ratios of balance sheets to GDP by raising GDP in nominal terms (without adjusting for price changes). In fact, inflation has accounted for around two-thirds of nominal growth in the United States and three-quarters in Europe since 2021. Among specific balance sheet items, price gains in real estate and equity slowed somewhat as interest rates rose on the back of higher inflation (see sidebar "Real estate and equity values have primarily been driven by shifts in interest rates").

Exhibit 8

Following the pandemic, many balance sheet items did not keep pace with GDP.

Growth across balance sheet items, annual average, 2021–24, %



[1]Includes shares in publicly and privately held corporations.
[2]Includes loan and bond liabilities.
[3]The decline in government debt in the eurozone is based on data from the OECD, capturing loans and debt securities. This data differs from the European Central Bank, which shows a small increase in debt for eurozone governments during this time. OECD values at current market prices; see technical appendix for further details.
[4]Includes infrastructure, machinery and equipment, and intellectual property. Intellectual property is also repeated on its own.
Source: CEIC; China National Bureau of Statistics; European national agencies; Eurostat; Federal Reserve; IHS Markit; OECD; People's Bank of China; McKinsey Global Institute analysis

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Sidebar

Real estate and equity values have primarily been driven by shifts in interest rates

Prior to the global financial crisis, the United States and Europe, in addition to other advanced economies, experienced an unprecedented housing boom.[1] After a correction following the global financial crisis and European sovereign debt crisis, real estate values climbed again. China, meanwhile, saw household real estate values climb as industrialization and urbanization fueled a property boom.

In the 1990s, equity surged during the dot-com bubble, a trend that largely continued in the ensuing decades despite drops after the bursting of the bubble and, later, the global financial crisis. Equity grew at two times the rate of GDP from 1995 to 2021 and was valued at more than 100 percent of corporate net assets in 2024.

To understand underlying drivers of these shifts, up to their pandemic high points relative to GDP and thereafter, we decomposed changes into real income, expectations, and cost of capital effects for the United States and Germany (exhibit).

In the United States and Germany, real estate valuations have primarily been driven by real interest rates. Until the pandemic, falling interest rates reduced the cost of financing and increased the present value of future rental income, driving up real estate prices. From 2021 through 2024, monetary tightening in response to high inflation led to declines in real estate values relative to higher nominal GDP.[2]

As with real estate, interest rates have been the primary driver of equity values over the last 30 years, with increases in corporate earnings playing a smaller but still important role. Over 2021 to 2024, positive market sentiment partially offset lower corporate earnings, expected growth, and higher rates. Going forward, any future turmoil in equity markets could threaten market sentiment.

[1] Individual countries within the eurozone followed slightly different trends. Germany's real estate, for example, saw major growth only in the late 2010s.

[2] Germany's real estate appears to not have seen a major correction following the pandemic, based on stock data reported by the OECD and Germany's national statistical agency. A Bundesbank report shows four German home price indices, with the highest price correction being 15 percent. See *System of indicators for residential property markets*, Deutsche Bundesbank, December 2024.

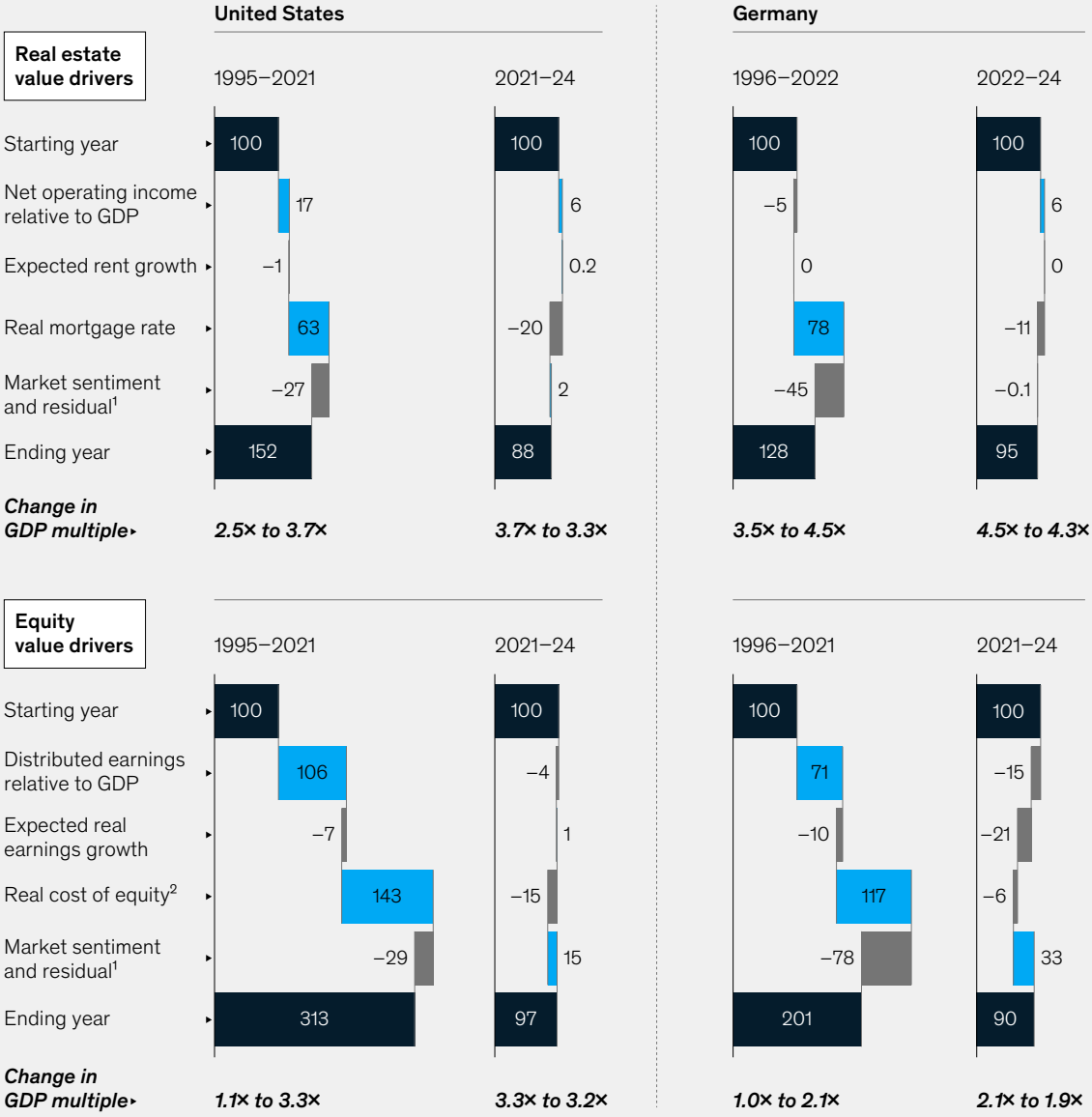
Sidebar (continued)

Real estate and equity values have primarily been driven by shifts in interest rates

Exhibit

Higher inflation and interest rates have brought down real estate and equity multiples of GDP since pandemic-era highs.

Change in GDP multiple of real estate and equity up to and following pandemic-era highs, index (starting year = 100)



Note: Figures may not sum to 100%, because of rounding.
[1]Residual term, reflecting the difference between actual and modeled historical values; includes any changes in cost of equity beyond interest rates.
[2]Includes an equity risk premium term, assumed to be constant.
Source: Destatis; Federal Reserve; OECD; Oxford Economics; McKinsey Global Institute analysis

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In the eurozone, balance sheet corrections went further than in the United States. Both experienced similar bouts of inflation. But shorter mortgage durations in many eurozone countries meant that higher interest rates had a quicker impact than in the United States, where 30-year fixed terms are prevalent. As a result, property price growth and new construction slowed in Europe. Meanwhile, competitiveness challenges and energy price spikes dampened equity growth. EU fiscal rules limited public spending, curbing debt.[18]

China experienced a sharp drop in inflation rates during this period, in stark contrast to the United States and Europe. Therefore, it didn't get the same kind of nominal GDP growth that lowers balance-sheet-to-GDP ratios. That said, household real estate shrank by 2.5 percent as a major property boom came to an abrupt end.[19] The government reacted with high fiscal deficits and directed investment of state-owned and publicly controlled firms. Debt and productive capital stocks correspondingly continued outpacing GDP growth.[20]

Despite these adjustments, the global balance sheet and its components remain elevated, by historical standards. Imbalance persists. Debt and asset values are high compared to GDP, wealth inequality persists across many countries, and cross-country financial positions are uneven.

The world is out of balance, in terms of both its economies and its balance sheet. This may lead key economies toward different scenarios, one uniformly good and the others suboptimal to varying degrees. The next chapter explores potential scenarios and what is at stake.

CHAPTER 2

Productivity can resolve imbalances while preserving wealth and growth

Will the world move back into financial balance? How countries and companies react today will set the course for the global economy and its wealth. We model four scenarios to explore what is at stake for the world's three largest economic zones: the United States, Europe, and China.[21]

The world sits in a precarious position, with multiple future scenarios possible

The global balance sheet points to four scenarios for wealth and growth (Exhibit 9). A balance sheet and economy that are out of balance can stay that way—return to past era (of secular stagnation)—or move back toward balance by shrinking the balance sheet (balance sheet reset), lowering its value in real terms via inflation (sustained inflation), or growing the economy more quickly (productivity acceleration).

Only the productivity acceleration scenario combines growth in output and wealth while supporting balance sheet health. Under this scenario, economic growth outpaces debt and asset value growth. The economy essentially catches up with the balance sheet, providing a sturdier foundation for high asset valuations and debt.

At the other end of the spectrum, a balance sheet reset has clear-cut negative implications for wealth and growth. It involves a sudden correction of the balance sheet and ensuing loss in wealth, followed by painful deleveraging—that is, paring back borrowing or paying down debt—and economic weakness.

Only the productivity acceleration scenario combines growth in output and wealth while supporting balance sheet health.

Exhibit 9

Balance sheets could go four ways, each with a distinct combination of growth, inflation, and interest rate outcomes.

	Productivity acceleration	Sustained inflation	Return to past era (of secular stagnation)	Balance sheet reset
Historical analogy	United States during late 1990s information and communication technology boom	United States post–oil shock, 1970s	United States and Europe between global financial crisis and COVID-19 pandemic	Japan post–real estate bubble, 1990s
What would happen	The balance sheet shrinks relative to GDP due to real growth; productive capacity expands from high investment and tech adoption	The balance sheet shrinks relative to GDP due to nominal growth; high demand and low saving spur inflation, while productivity growth is muted	The rise of the balance sheet resumes; the economy returns to weak investment and a savings glut	Asset price corrections and potential deleveraging shrink the balance sheet; high demand suddenly reverses due to shock, rippling through the economy
*What it means for **wealth***	Growth in real wealth, declining balance sheet risk	Gains in nominal but loss in real wealth; real value of debt declines	Rising wealth on paper, growing balance sheets with higher asset values and debt	Absolute loss of wealth due to asset price corrections
*What it means for **growth***	Rapid real growth above pre-pandemic growth rates in the United States and Europe; China approximately reaches targets	High demand drives nominal growth, but supply constraints moderate real growth	Sluggish growth, down to about 1% in the United States and Europe and 2% in China	Deep recession followed by stagnant growth and persistent low confidence; "lost decade"
*What it means for **inflation and interest rates***	Inflation moderates closer to US and European targets; interest rates remain higher than pre-pandemic rates given high investment	Above-target inflation in the United States and Europe; interest rates higher than pre-pandemic rates	Below-target inflation; real interest rates less than 1% (potentially even negative)	Interest rates spike from inflationary pressure and then fall to near-zero rates

Precise outcomes vary by country. For example, in China, corporate profits (and thus equity values) vary significantly by scenario. Higher demand in a productivity acceleration scenario helps corporate profits and equity values, and as a result, wealth and the balance sheet continue to outpace GDP.

Source: McKinsey Global Institute analysis

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The other scenarios are murkier. Sustained inflation brings decent economic growth while devaluing assets and debt in real, inflation-adjusted terms, thus shrinking the balance-sheet-to-GDP multiplier. But it carries a host of well-known, damaging side effects on business planning, interest rates, and household budgets, particularly for those with lower incomes.

A return to past era (of secular stagnation) carries with it low investment and high savings. This, in turn, leads to weak demand, pushing down inflation and interest rates. The United States and Europe experienced this, to varying degrees, during the 2010s, hence the "return to past era" descriptor. But it would be new territory for China, which has experienced rapid demand and economic growth for the past 25 years. Wealth would continue to grow under secular stagnation, on paper at least. But this scenario brings sluggish economic growth as savings bid up asset prices rather than flowing toward more productive uses. And while the low interest rates that tend to accompany secular stagnation make a large balance sheet look less daunting, vulnerability to any eventual balance sheet reset would remain. In other words, the combination of low investment and high savings may result in a prolonged elevation of the balance sheet at high, and risky, levels.[22]

In short, economies are unlikely to achieve balance while preserving wealth and growth unless productivity accelerates. Other scenarios sacrifice one or the other or both.

Productivity acceleration is by far the most desirable outcome for wealth and growth

In our modeling, the balance sheet scenarios play out differently in the United States, Europe, and China. It's no wonder why: Each starts from its own place, with very different recent momentum. Despite the differences, the scenarios show some important similarities across countries. Most importantly, productivity acceleration remains the ideal outcome, helping restore balance nationally and globally while preserving wealth and growth (Exhibit 10). Balance sheet reset is uniformly the worst outcome. In the following chapters, we examine scenarios for each of these economies in greater detail (see sidebar "How we model scenarios and their balance sheet outcomes").

Households in the United States need productivity acceleration to maintain current levels of wealth, let alone grow them sustainably; wealth might erode by almost $100,000 per capita in real terms if sustained inflation or a balance sheet reset come to pass. Under secular stagnation, wealth also grows but in a way that leaves households more vulnerable to shocks and intensifies wealth inequality. Even today, equities are valued, collectively, at more than three times GDP and have cyclically adjusted price-to-earnings ratios near all-time highs.[23] In secular stagnation, the imbalance expands. For example, equities would grow by five more percentage points of GDP.

Sidebar

How we model scenarios and their balance sheet outcomes

To build our scenarios, we began with the underlying logic that the global balance sheet can go in one of four directions moving forward: It can resume growing faster than GDP as a result of secular stagnation–type forces (low investment, growth, inflation, and interest rates), or it can revert relative to GDP via higher productivity (high investment, real GDP growth, real interest rates), higher inflation (high nominal GDP growth), or asset price corrections and deleveraging (leading to low growth, low interest rates, and low inflation). We then translated these scenarios into outcomes for GDP, inflation, and interest rates via the Oxford Global Economic Model.

To model the evolution of major balance sheet items across scenarios, we used a combination of discounted cash flow models (for real estate and equity) and direct outputs from the Oxford Economics model (for bonds, currency and deposits, loans, and productive assets). We calculated household wealth by scenario by considering the current composition of household balance sheets and how assets and liabilities are projected to grow over time.

The value of **real estate**, which collectively accounts for just over half of total household net worth globally, fundamentally reflects the present value of future rental income, net of operating costs.[1] To estimate real estate values across scenarios, we took the following steps:

— *Estimate future rental income.* We model the relationship between growth in rents, inflation, and real GDP based on historical averages in each economy.[2] We keep rent-to-GDP ratios broadly constant in the United States, in line with history, and grow rents slightly more slowly than GDP in Germany and China, in line with historical trends there.

— *Calculate discount factor.* We used a weighted average cost of capital that encompasses both cost of debt and cost of equity: mortgage rates (real interest rates, plus a mortgage rate spread) and a real required return on property equity.[3]

Because real estate assets generate value over a long time horizon, even marginal changes in rental income growth or discount factors can yield large valuation shifts. To give an idea of sensitivities to assumptions: US real estate was valued at 3.3 times GDP (about $95 trillion) at the end of 2024. Keeping all else constant, an increase in (mortgage) interest rates of one percentage point would reduce this value by about $12 trillion. A one-percentage-point increase in expected long-run inflation would raise it by about $30 trillion. A one-percentage-point increase in long-term GDP growth and thus rental income would raise it by about $10 trillion.

The value of **equity**, which constitutes one-third of household wealth, fundamentally reflects the present value of future distributed corporate earnings.[4] To estimate equity values across scenarios, we took the following steps:

— *Estimate future distributed corporate earnings.* Projections for corporate earnings are directly provided by Oxford Economics for each scenario. The share of distributed earnings is assumed to be constant across scenarios and is set equal to the 2024 value for each of the economies under consideration.[5]

— *Calculate discount factor.* We used a real cost of equity, which is essentially the rate of return shareholders expect for taking on the risk of investing, calculated as the long-term real interest rate on government debt plus an equity risk premium.[6]

In the United States and Germany, under the two slower-growth scenarios (return to past era and balance sheet reset), corporate profits rise faster than GDP, mirroring the dynamics of the 2010s. Slower growth reduces both revenues and costs, but the drop in costs (such as wages) has a larger impact. In contrast, in the productivity acceleration and sustained inflation scenarios, profits grow more slowly than GDP. In China, the dynamic is the opposite: In slower-growth scenarios, domestic demand remains weak, which intensifies overcapacity challenges, depressing profits relative to GDP.

Similar to real estate, equity valuations are highly sensitive to macroeconomic drivers. As of the end of 2024, the value of US equity stood at 3.2 times GDP (about $90 trillion). A one-percentage-point increase in interest rates, which would increase the cost of equity, would reduce total equity value by about $18 trillion. All else being equal, a one-percentage-point increase in either expected inflation or long-run corporate profit growth would raise it by about $40 trillion.

The remaining components of household net worth, particularly bonds, loans, and currency and deposits, are direct outputs of the Oxford Economics model.[7] Productive assets, while not a notable component of household net worth, are crucial for growth and thus shown in Exhibit 11.

1 Rental income reflects actual rent paid for rental properties, or imputed rents for owner-occupied homes. Data on the gross operating surplus of the real estate sector, for all economies, is provided by IHS Markit.

2 In the United States, rent growth tends to match the pace of GDP growth more closely than in Germany or China, reflecting institutional differences. In Germany, for example, rent control measures appear to curb rental income growth to a rate below that of GDP. Historical rent and GDP data is from the OECD and national statistical agencies.

3 Using historical data from Oxford Economics, we calculated average mortgage rate spreads in the United States for time periods analogous to our four scenarios. We then applied those mortgage rate spreads by scenario for each of our three economies of focus. We used a constant real cost of property equity across scenarios, based on average implied historical levels (given real estate values, rents, and other valuation inputs) within each economy.

4 Equity is held both directly and indirectly via portions of the balance sheet items that include investment fund shares and pensions.

5 The share of distributed profits in 2024 is provided by the Federal Reserve for the United States. For Germany, we use European Central Bank data on corporate savings for the eurozone as a whole, while for China we estimate the share of distributed profits via a bottom-up exercise considering listed companies in the Beijing, Shenzhen, and Shanghai stock exchanges.

6 The yield on government bonds for each scenario is provided by Oxford Economics. We keep equity risk premiums (ERPs) constant for each economy across scenarios. For the United States, we use the average US ERP for the 2010s as estimated by New York University professor Aswath Damodaran. For Germany and China, we estimate the historical implied ERP, given equity values and other valuation inputs. We then apply the average implied ERP for Germany from the 2010s. We used the most recent year for China, because of the economy's ongoing market deepening.

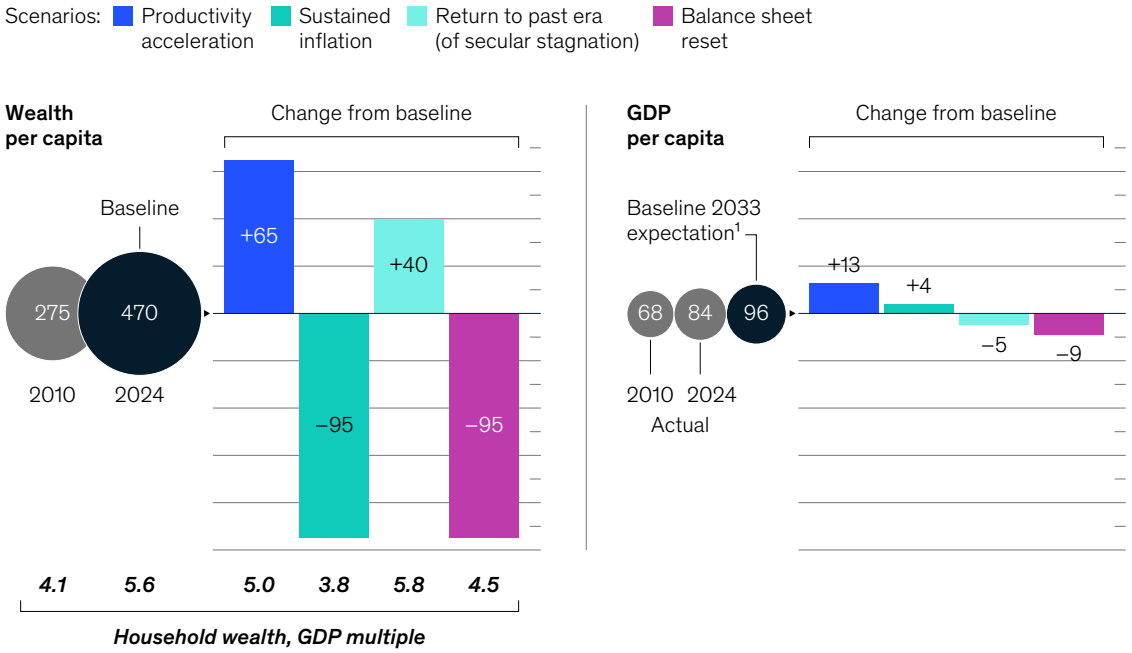
7 Some of these items are indirectly held via portions of the balance sheet items investment fund shares and pensions.

Significant economic growth is also at stake. Under productivity acceleration, US productivity would roughly double from its trend of the past 15 years, to 2.3 percent annually through 2033. Its GDP would grow at 3.3 percent, about a percentage point faster annually than its trend over that period, pulling it further ahead of Europe and, potentially, even China. But in both secular stagnation and a balance sheet reset, GDP growth would hover close to 1 percent. This adds up. By 2033, GDP per capita would be $18,000 less in secular stagnation and $22,000 less in a balance sheet reset, both compared to productivity acceleration.[24] Perhaps surprisingly, in the sustained-inflation scenario, GDP would grow healthily, slightly above current baseline expectations, at a 2.4 percent annual increase.

Exhibit 10A

Productivity acceleration sees the best growth and wealth outcomes, and balance sheet reset the worst.

Change in US wealth and GDP per capita by scenario, 2024–33, real $ thousand



[1]Reflects the IMF GDP projections from the April 2025 World Economic Outlook; the IMF projection refers to the 2024–30 period; we extend the average annual growth rate from that period through 2033.

Source: Damodaran; Federal Reserve; IHS Markit; IMF; Wind; Oxford Economics; McKinsey Global Institute analysis

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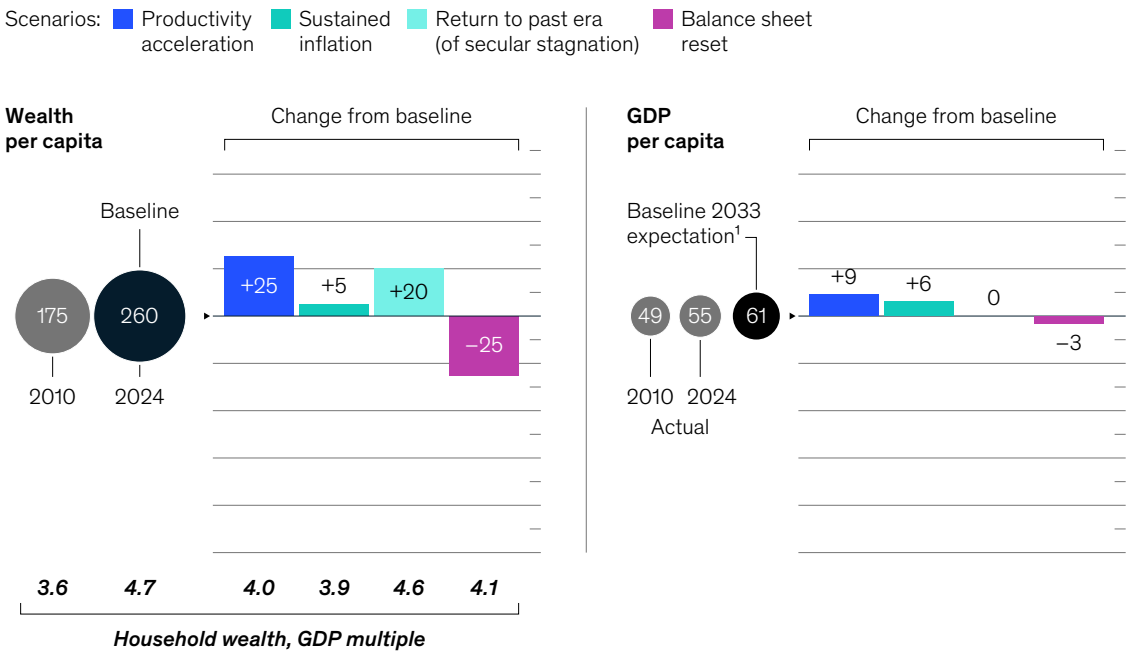
The stakes are high for Europe. For instance, consider what would happen if Germany sees a return to past era rather than achieving productivity acceleration: Wealth would keep pace, but GDP per capita would be $9,000 lower, all by 2033. Moreover, the already sizable gap in GDP per capita with the United States would widen by $19,000, an increase of two-thirds from today.[25] But if Europe manages the decisive step-up on competitiveness and growth needed for productivity acceleration, it would see benefits in growth while also increasing wealth by 10 percent.[26]

Exhibit 10B

Productivity acceleration sees the best growth and wealth outcomes, and balance sheet reset the worst.

Change in Germany's wealth and GDP per capita by scenario, 2024–33, real $ thousand



[1]Reflects the IMF GDP projections from the April 2025 World Economic Outlook; the IMF projection refers to the 2024–30 period; we extend the average annual growth rate from that period through 2033.

Source: Damodaran; Federal Reserve; IHS Markit; IMF; Wind; Oxford Economics; McKinsey Global Institute analysis

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No matter the scenario, China would grow more slowly than its scorching 6.4 percent reported annual GDP growth between 2010 and 2024.[27] That said, growth in productivity acceleration is 4.6 percent, still high for an economy of China's size. Three percentage points of GDP growth are at stake between the best and worst scenarios.

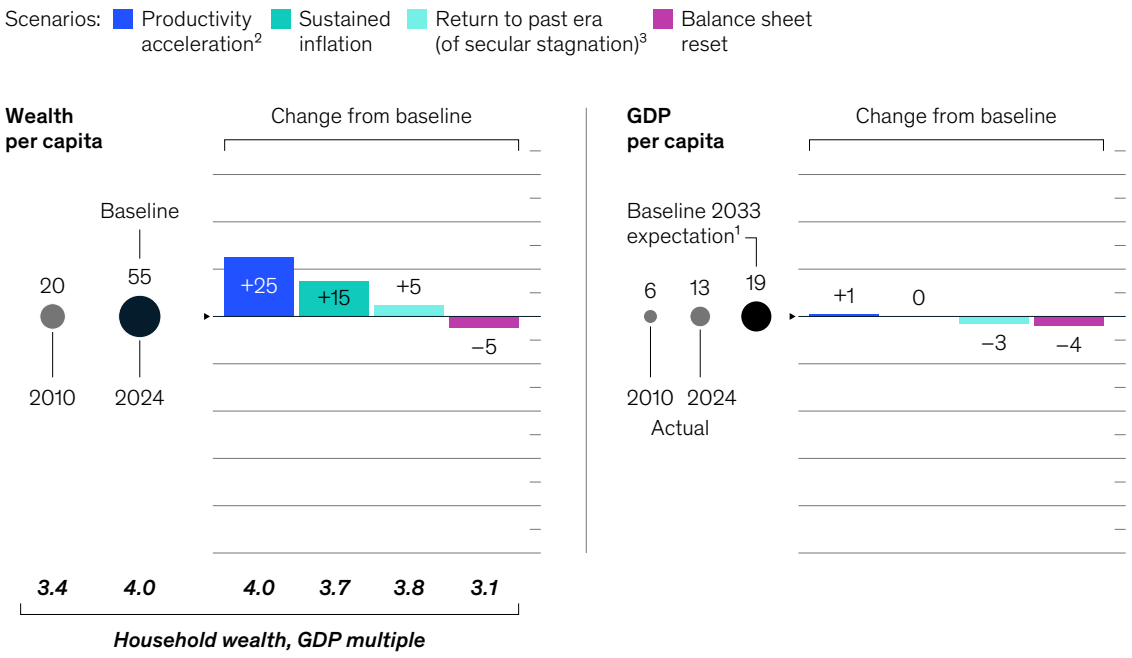
More notably, Chinese households may face stagnating real wealth for the first time in more than a generation, unless consumer demand rises substantially and productivity continues to grow (our productivity acceleration scenario). A balance sheet reset erodes wealth by $5,000 per capita. In contrast to the United States and Germany, secular stagnation means small gains of only $5,000 per capita. Sustained inflation, which implies a jump-start of demand and a reversal of recent trends of flat price growth, sees further growth of $15,000 per capita. Fast productivity growth most meaningfully adds to wealth. Between the best and worst scenarios, up to 50 percent of 2024 wealth is at stake.

The country's balance sheet is large by historic and global standards, and its past wealth came from expanding property values, fueled by rapid export- and investment-driven income gains. Such gains are unlikely to continue at the same rate, but productivity acceleration unlocks new sources of growth from greater domestic consumption and private business investment, supporting incomes, earnings, and asset valuations.[28] Secular stagnation and balance sheet reset do not. In these scenarios, recent softness in asset markets continues, and wealth remains flat.

Exhibit 10C

Productivity acceleration sees the best growth and wealth outcomes, and balance sheet reset the worst.

Change in China's wealth and GDP per capita by scenario, 2024–33, real $ thousand



[1]Reflects the IMF GDP projections from the April 2025 World Economic Outlook; the IMF projection refers to the 2024–30 period; we extend the average annual growth rate from that period through 2033.
[2]In China, this scenario refers to a continuation of fast growth rather than a true acceleration, as would be the case in the United States and Europe.
[3]The name of this scenario is based on the past era for the United States and Europe. In China, this is a secular stagnation scenario, representing a shift from the past era of high growth toward one of low demand, growth, and interest rates.
Source: Damodaran; Federal Reserve; IHS Markit; IMF; Wind; Oxford Economics; McKinsey Global Institute analysis

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Across scenarios, the US economy would grow between 0.5 and 0.9 percentage point faster than Germany's, due to more favorable demographics and higher competitiveness. And that gap could widen to two and a half percentage points if the United States achieved productivity acceleration and Europe did not.

US growth would be 0.7 to 1.4 percentage points slower than growth in China, whose economy is still catching up to wealthier countries'. That said, the gap would be much lower than in the past two decades. In some scenario combinations, the United States could even outgrow China. In the most pronounced case, US GDP growth in productivity acceleration is 1.7 percentage points higher than China's GDP growth in the reset scenario.[29]

In our modeling, the four scenarios also come with widely different paths for inflation and interest rates. Of course, a sustained-inflation scenario might bring substantial cumulative inflation and thus devalue the balance sheet in real terms by 30 to 40 percent. Interest rates would stay higher in a higher-inflation scenario but also in productivity acceleration. As firms and governments invest more, demand for capital increases, driving up interest rates. Notably, in the United States, our productivity acceleration scenario assumes a 4.8 percent average rate on ten-year Treasury bonds over the next decade.

Individual balance sheet items could see significant swings across scenarios

Just as productivity acceleration delivers the best outcomes for wealth overall, it also tends to deliver the highest growth across asset classes (Exhibit 11). These projections are not simply about whether the assets go up or down in price. Our models for each of the largest balance sheet items also incorporate changes in volume—for example, new homes that are built, new equity shares that companies issue, or fresh bonds that firms and governments sell.[30]

Across countries and asset classes we examine, we see only a few exceptions to productivity acceleration yielding the highest growth. In the United States, the value of equities grows faster in a return-to-past-era scenario, consistent with the strong performance of corporate earnings in the last 15 years, coupled with low capital costs. Given that equities are the second-largest contributor to household wealth, a return-to-past-era scenario also sees high wealth outcomes in the United States.

In Germany, real estate performs better in a return-to-past-era scenario than in a productivity acceleration. Real estate is very sensitive to interest rates, which would decline in secular stagnation. By contrast, the rent increases that might be expected in a productivity acceleration scenario are muted in Germany due to strong rent controls. Given that real estate is the largest contributor to German household wealth, wealth outcomes in a return-to-past-era scenario are nearly the same as in productivity acceleration.

Across all three economies, bonds see the greatest growth in a balance sheet reset rather than in productivity acceleration. As households and businesses deleverage, governments tend to pick up spending to stimulate the economy and stabilize financial systems, leading to higher public debt. An archetypal example of a reset is Japan after its asset bubble of the early 1990s burst: Public debt grew by 100 percentage points as private debt declined by 30 percentage points over the course of roughly two decades.[31] More recently, in the United States following the housing collapse in 2007, private debt decreased by 15 percentage points and public debt increased by 40 percentage points.

Equities are the most substantial swing factor across scenarios and countries. Sustained inflation hits corporate earnings and comes with a strong uptick in capital costs, resulting in the most significant drop in US equity values. In China, secular stagnation leads to a significant drop in equity. This is because low demand exacerbates existing profitability challenges, including overcapacity and intense price competition. Therefore, secular stagnation has worse wealth outcomes in China than in the United States or Germany.

Exhibit 11

Productivity acceleration tends to see the greatest real asset growth.

Economic parameters' CAGR through 2033, by scenario, %

[1]Includes shares in publicly and privately held corporations.
[2]Based on business capital stock data from the McKinsey macro model, built in partnership with Oxford Economics; used as proxy for investment in productive assets such as infrastructure, machinery and equipment, and intellectual property.
Source: CEIC; China National Bureau of Statistics; Damodaran data; Destatis; IHS Markit; OECD; Oxford Economics; People's Bank of China; Wind; World Bank; McKinsey Global Institute analysis

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Of course, all these projections are subject to considerable uncertainty and require a number of specific choices. Details vary by individual economy and balance sheet item and reflect one potential set of outcomes given assumptions, including corporate earnings and rental income from property.

Productivity acceleration across the world would help address international financial and trade imbalances

Not only is productivity acceleration best for achieving balance in individual economies, but its ingredients would also help remedy international financial and trade imbalances. As we detail in the next chapter, these ingredients boil down to Europe investing more, China consuming more, and the United States saving more or borrowing less.

If the United States—particularly the government—borrowed less, this would allow private savings to fund domestic investment rather than fiscal deficits and would mean less need to raise capital abroad. A better balance of savings and investment would also signal better balance on trade. In Europe, higher domestic investment would likely mean putting savings to better use at home than exporting them, thus lowering trade surpluses. Faster growth and brighter economic prospects would also make financial investments in Europe more attractive and raise equity values, putting international equity holdings into better balance. Greater consumption in China would mean less reliance on net exports to drive demand, reducing trade imbalances and leading to a more stable economy.

What if one or more of these economies fails to achieve productivity acceleration? This would make it harder for others to reach it themselves, given significant trade and financial interconnections.[32] It would also make international imbalances more difficult to solve. If, for example, only the United States achieved productivity acceleration, international equity markets could continue to skew in favor of US holdings. If the United States does not get deficits in check, its negative debt balances might continue to grow. If China proves unsuccessful in raising domestic consumption and productivity, it may flood global markets with goods and capital.

The balance sheet provides clues for which scenario comes next for major economies

Given the stakes, understanding which scenario may unfold is crucial. Unless economies get more output out of what they currently have or generate new, productive assets, they won't be able to achieve the type of balance that is good for wealth, growth, and incomes for their people and companies.

The balance sheet helps identify the most important swing factors and whether any change in them is big enough to shift an economy from one scenario to another. In doing so, it provides a longer-oriented lens to interpret the ongoing flow of data, events, and policy shifts:

— *Productivity acceleration: High productive investment.*[33] Key drivers include growth in what promise to be productive assets—for example era-shaping opportunities like new technology, energy sources, and public investments (such as infrastructure and defense). On balance sheets, these appear as productive assets. Healthy household, fiscal, and corporate balance sheets point to greater spending and investment, which also help.

— *Sustained inflation: High investment relative to savings*, with supply headwinds such as supply chain or labor constraints.[34]

— *Return to past era (of secular stagnation): High savings relative to investment.* From a balance sheet perspective, high debt and interest rates may signal pressure to save and deleverage.

— *Balance sheet reset: Historically elevated asset values and debt*, along with high rates of paper wealth creation. The tipping point may occur if these get exposed by high interest rates, a shift in corporate earnings, or any shocks to expectations and confidence.

Productivity acceleration is clearly the ideal outcome, but each country's situation is different. Their balance sheet issues are different. What each needs to do to address them is different, too. In the next chapter, we explore which trajectories economies are on and the forces that could steer them toward the best or worst outcomes.

CHAPTER 3

United States: Maintaining high investment amid balance sheet risks and uncertainty

The US balance sheet peaked in 2021 as a multiple of GDP after decades of disproportionate growth. It has receded since, as higher inflation slowed real asset appreciation and debt growth.

In addition, recent productivity growth has lifted GDP, moving the economy and balance sheet into better sync. Productivity spiked in 2020 as labor was shed during lockdowns. It picked up again starting in mid-2023, with its growth rate in 2024 doubling the average of the 2010s. Almost all other advanced economies experienced drags.[35]

Despite these effects, the balance sheet entered 2025 elevated on a historical basis. This was particularly pronounced in equity values, which are more than 200 percentage points above long-term averages relative to GDP. Public debt is nearly double its average historical GDP ratio (see sidebar "How far out of balance is the US balance sheet?").

Recent productivity growth has lifted GDP, moving the economy and balance sheet into better sync.

Sidebar

How far out of balance is the US balance sheet?

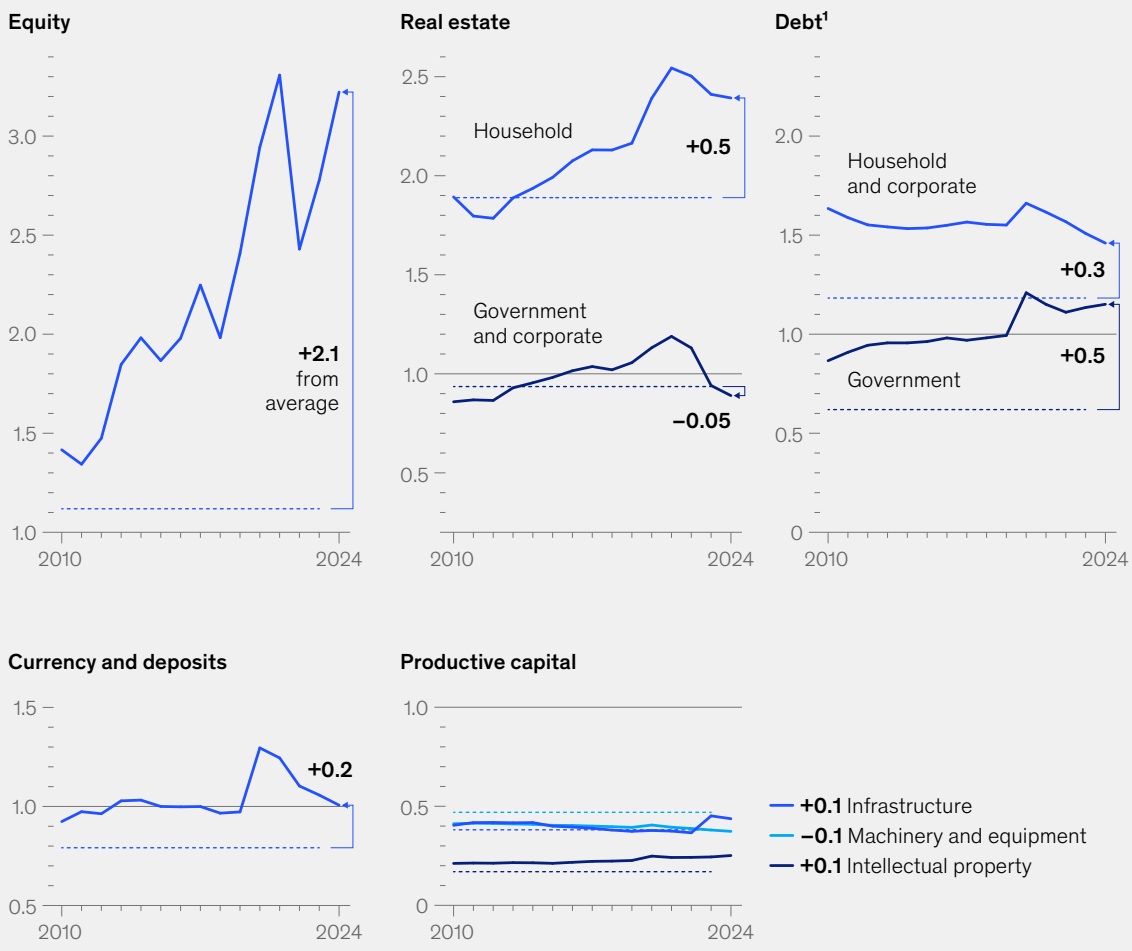
Asset values and debt have largely come down from their 2021 peak relative to GDP. This is mostly because annual inflation had been running over 4 percent on average, while real GDP growth has increased to about 3 percent annually. This mix increased the denominator side of the equation, thereby reducing the balance-sheet-to-GDP ratio (exhibit).

As for balance sheet items, real estate recovered from the global financial crisis, then experienced a boom during the pandemic. This changed as inflation and the ensuing rise in interest rates took hold. The total value of household real estate kept growing at 5 percent a year. But after adjusting for inflation, the real value roughly stagnated. At the end of 2024, household real estate stood at 2.4 times GDP, compared with a long-term average of 1.9 times GDP from 1952 to 2023.

Exhibit

The US balance sheet has started correcting relative to GDP, although equity and public debt have resumed growth.

Value of select US balance sheet items, GDP multiple



[1]Includes bonds and loan liabilities; excludes debt of financial corporations. OECD values at current market prices; see technical appendix for further details.
Source: Federal Reserve; McKinsey Global Institute analysis

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Sidebar (continued)

How far out of balance is the US balance sheet?

Equity followed a similar path. Then strong earnings and earnings expectations led to a recovery to nearly all-time highs relative to GDP. At the end of 2024, US equity was valued at 3.2 times GDP, almost three times its average over the past 70 years. Government debt looks similarly out of balance. At 1.2 times GDP, it was 50 percentage points greater than its 70-year average and 20 percentage points higher than before the pandemic. Inflation helped flatten the curve relative to GDP while it lasted. But with US government deficits about 7 percent of GDP, debt will likely resume its upward march. Household and corporate debt has, in turn, come down by nearly 20 percentage points of GDP since 2010, and it is only about 25 percent of GDP above its 70-year average.

Lastly, currency and deposits, at 100 percent of GDP, have sharply corrected from their 2021 peak due to a reduction in central bank assets, known as quantitative tightening, as well as inflation. Still, they remain about 20 percentage points above their 70-year average.

Continued US productivity acceleration requires sustaining investment

From a balance sheet perspective, many ingredients for productivity acceleration seem in place, particularly strong household balance sheets and productive capital formation. If they continue, the United States could see a boost in per capita wealth of $65,000 by 2033.

In recent years, capital expenditures were fueled by technology. The productive capital stock in the United States moved up by seven percentage points of GDP in the past two years. Moreover, in the largest tech firms, R&D and capital expenditures have grown 19-fold since 2010 (Exhibit 12). This contributed to an all-time high value for intellectual property on the US balance sheet, 25 percent of GDP, in 2024. Announcements of greenfield foreign direct investment in the first five months of 2025, when annualized, were more than double the average of the past three years, with a particular concentration in semiconductors.[36]

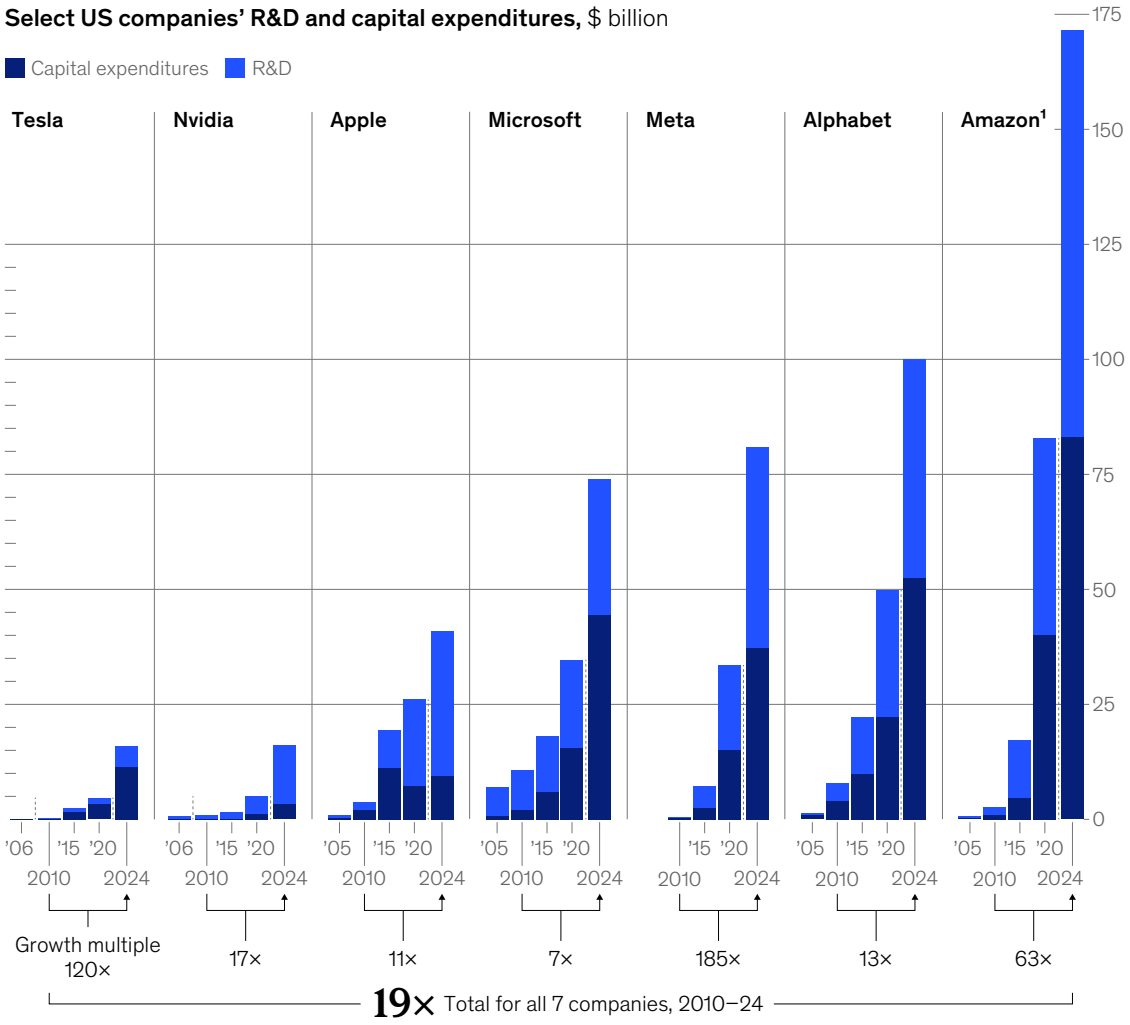
There are other positive signs. Strong corporate balance sheets support continued investment. Robust earnings—1.5 times higher relative to GDP than long-term averages—serve as a buffer against higher borrowing costs.[37]

Healthy household balance sheets suggest that demand could support business investment. Household wealth is up by a full multiple of GDP compared with 2010s averages, as equity holdings increased by 50 percent and property holdings grew by 20 percent. The liability side of household balance sheets has started to heal, too. Household debt has declined by about 25 percent of GDP since the global financial crisis, thanks to a mix of deleveraging and inflation. Another factor: About 85 percent of outstanding mortgages are generally shielded from interest rate increases by 30-year fixed-rate mortgages.[38] As a result, household spending is strong. The downside? Almost 60 percent of household-wealth growth has been on paper, stemming from asset price growth rather than saving and investing.

Yet uncertainty can be a significant barrier to investment, and policy and geopolitical uncertainty have risen.[39] The regulatory environment and the execution of investment plans in a productive way matter, too. Whether supportive regulation and taxation boost investor confidence or policy-related question marks cap it will be key indicators to watch in the United States.

Exhibit 12

Leading US technology firms are investing at a macroeconomically significant scale.



Note: Data sets for Tesla, Nvidia, and Meta start after 2005 due to data availability.
[1]Amazon's R&D expenditure uses the company's "technology and infrastructure" expense, reported under the GAAP requirement ASC 730 for research and development expenses.
Source: McKinsey Value Intelligence; McKinsey Global Institute analysis

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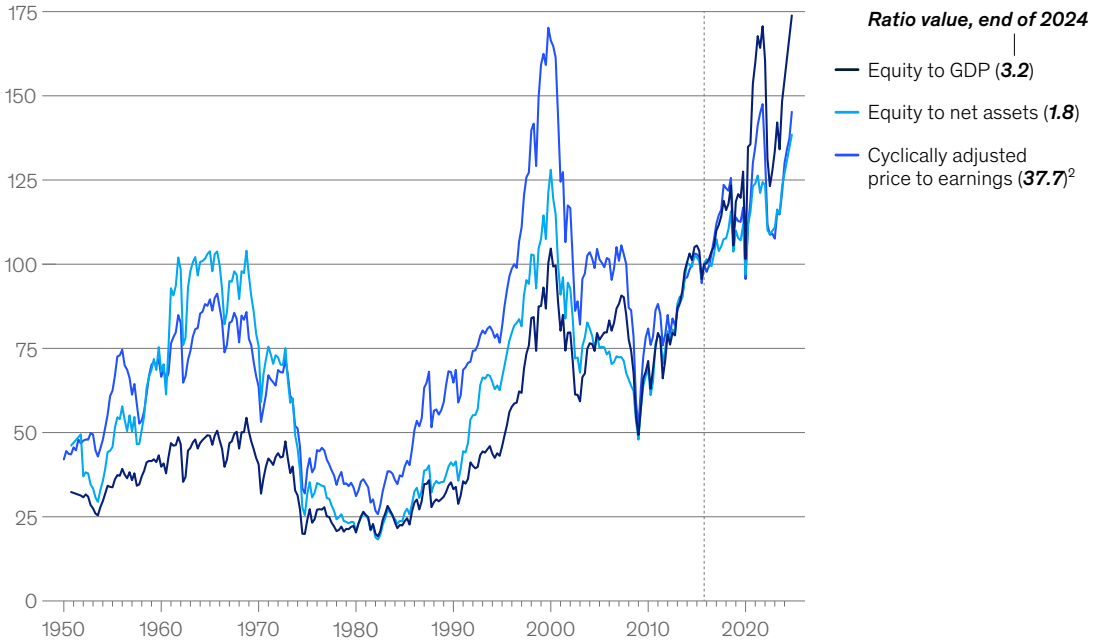
Balance sheet vulnerabilities mean less-favorable scenarios are possible

Other, less optimal scenarios described in chapter 2 are also in play. The worst in terms of wealth and growth would be a balance sheet reset, in which case wealth losses could be nearly $100,000 per capita through 2033. This may come about if vulnerabilities in equity or public debt are exposed. For instance, regarding equities, a great deal of attention is typically paid to price-to-earnings ratios, which have approached levels last seen during the dot-com boom.[40] Less noticed is that equity to GDP is 120 percentage points above what was seen during that boom, while the equity to net assets ratio is about 30 percentage points higher (Exhibit 13).

Exhibit 13

US equities are near all-time highs across three measures, supporting household wealth but adding risk.

Select US equity ratios,[1] index (Q4 2015 = 100)



[1]US equities data includes corporate equities, equity in government-sponsored enterprises (excluding equity in Federal Reserve banks and facilities), and foreign direct investment in US equity.
[2]As of Aug 8, 2025, this value was 37.9.
Source: Federal Reserve; Robert Shiller data; McKinsey Global Institute analysis

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Any structural shift in the earnings outlook, such as disappointment with AI or rapidly escalating trade disputes, could prompt an abrupt downshift in equity valuations and potentially usher in a balance sheet reset.[41] Thirty-five percent of household wealth is concentrated in equities, compared to a global average of 25 percent, making US households particularly sensitive when equities are up or down.[42]

Other sources of vulnerability include US government debt, which sits at nearly 120 percent of GDP, and annual fiscal deficits of about 7 percent of GDP.[43] Whereas fiscal stimulus over the past 15 years generally coincided with low interest rates, this time a mix of higher inflation and investor concerns about debt sustainability has kept interest rates elevated. With ten-year yields above 4 percent, debt service payments are now the fastest-growing component of the deficit. Higher debt payments may drag future growth, especially because half of the outstanding debt will turn over by 2027 and may thus be subject to higher interest rates.[44]

Any big hit to confidence that sends interest rates sharply higher or significantly reduces demand for US Treasuries could trigger a balance sheet reset, whether from spillovers to other assets and debt or large forced government spending cuts. Separately, if a financial or geopolitical crisis were to occur, the government may have less fiscal space than it did during the 2008 global financial crisis or the pandemic to keep the economy afloat.[45]

Sustained-inflation and secular-stagnation scenarios are also possible

Fiscal developments could instead tip the United States into secular stagnation, even without an outright balance sheet reset. This could arise from consolidation through tax increases or spending cuts that are sharp enough to offset household spending, for example under pressure from bond markets or other factors (at the time of writing, there appeared to be no concrete plans for fiscal belt tightening at such a scale).[46] In such a scenario, wealth would continue to grow—as it did in the first two decades of this century—but consist significantly of paper wealth not underpinned by actual economic growth. Indeed, GDP per capita would undershoot the productivity acceleration scenario by $18,000 in 2033.

Finally, sustained inflation is possible from high debt, labor market pressures, or tariffs. Why the link between debt and inflation? If interest burdens become so high that they threaten to roil markets and the economy, central banks might hesitate to respond to inflation threats though higher policy rates.[47] Indeed, they may purchase government debt to force down rates and protect financial stability, thereby increasing the money supply and potentially triggering more inflation.[48] More immediately, markets are focused on tariffs. Any one-time consumer price increase from tariffs would probably not be enough to enter a sustained-inflation scenario. But if companies that aren't directly affected were to raise prices, this could lead to a more durable increase and pose more of a dilemma for the Federal Reserve.

Sustained inflation's negative effect on real wealth would be on par with the consequences of a balance sheet reset—nearly $100,000 per capita as of 2033. GDP growth would be muted compared to productivity acceleration but still $9,000 per capita larger than in the return-to-past-era (of secular stagnation) scenario by 2033.

Ultimately, reducing fiscal deficits may be crucial to forestalling downside scenarios, all of which have some consequence of growing government indebtedness. The flip side to borrowing less is saving more. Doing so would put the United States on safer ground to reach a productivity acceleration and help recalibrate financial imbalances.

The US balance sheet seems out of proportion by historic standards, notably in corporate equity and government debt. Productivity acceleration may be needed to preserve and grow household wealth. The balance sheet ingredients—strong household balance sheets and productive capital—seem to be in place, but it will require maintaining confidence for investment while reducing fiscal and external imbalances.

CHAPTER 4

Eurozone: In search of lost competitiveness

Europe has many balance sheet ingredients consistent with secular stagnation, among them debt-cutting households, fiscal constraints, and sluggish investment. Weak productivity and falling interest rates also point in this direction. A step-up in corporate competitiveness and investment could change that and move the economy toward productivity acceleration.

Like the United States, Europe's balance sheet also peaked relative to GDP during the pandemic. The region then experienced a similar uptick in inflation and interest rates, putting more downward pressure on asset values and debt (see sidebar "How far out of balance is the eurozone balance sheet?"). Europe's productivity has been largely flat, in contrast to the United States.[49]

Europe has many balance sheet ingredients consistent with secular stagnation, among them debt-cutting households, fiscal constraints, and sluggish investment.

Sidebar

How far out of balance is the eurozone balance sheet?

As in the United States, most of Europe's asset values and debt have come down from their pandemic peak relative to GDP. This occurred largely because of average annual inflation of over 4 percent since 2021. In contrast to the United States, Europe's productivity flatlined (exhibit).

Real estate has remained elevated over the past 15 years, about 95 percentage points of GDP higher than its long-term (1970–2023) average. The pandemic brought a further increase relative to GDP in 2020 and 2021. Since then, while the value of all real estate continued growing at about 2 percent per year in nominal terms, it declined in real terms and relative to GDP.

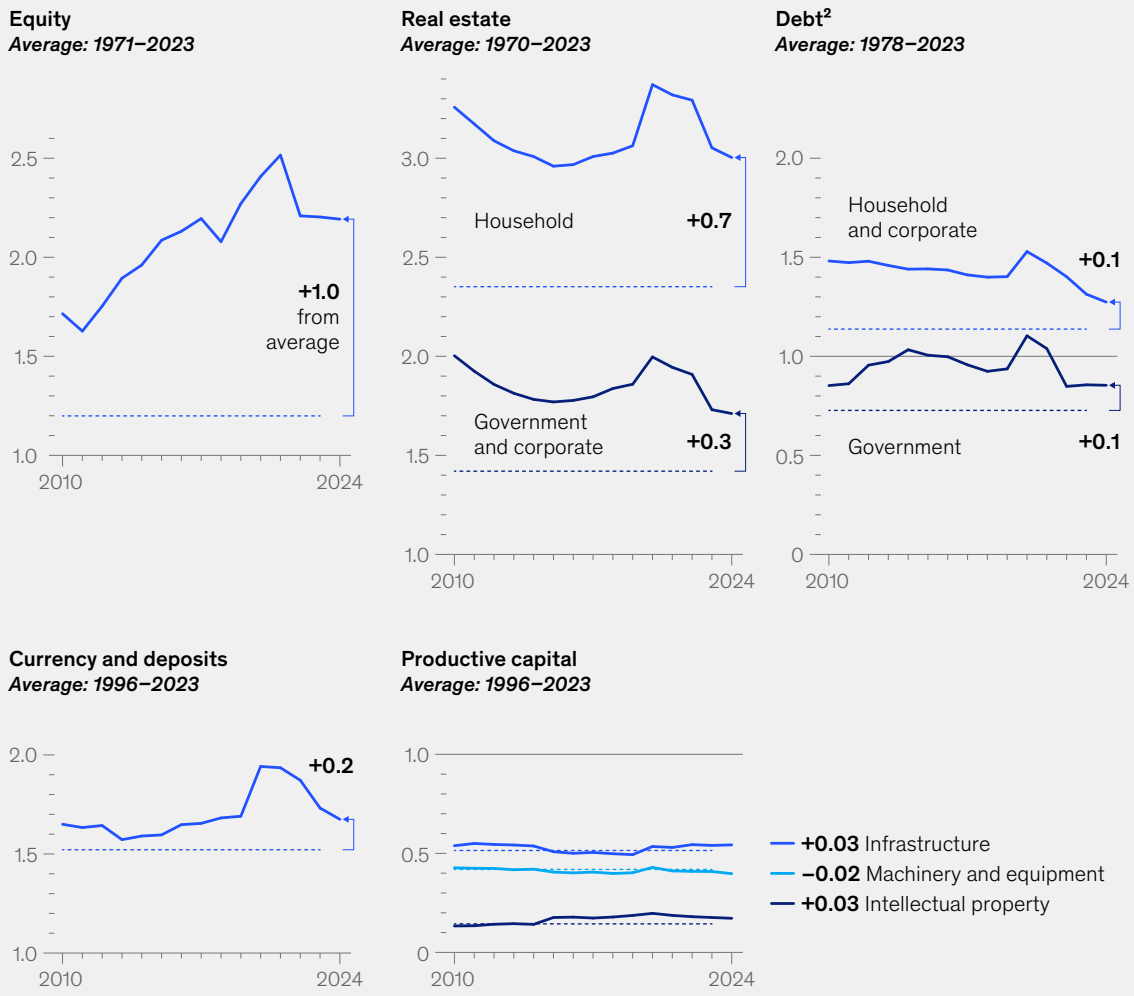
Equity has grown steadily over time, reaching an all-time high relative to GDP in 2021. It has since declined by 30 percentage

Exhibit

The eurozone balance sheet saw sharp corrections following the pandemic, especially in debt.

Value of select eurozone balance sheet items,[1] GDP multiple

---- Historical average



[1]Eurozone-wide results estimates based on data from countries accounting for 85% of eurozone GDP.
[2]Includes bond and loan liabilities; excludes debt of financial corporations. OECD values at current market prices; see technical appendix for further details.
Source: IMF; national statistical agencies; OECD; World Inequality Database; McKinsey Global Institute analysis

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Sidebar (continued)

How far out of balance is the eurozone balance sheet?

points of GDP but remains a full multiple of GDP above 50-year averages.

Government debt, meanwhile, has dropped from its all-time high value in 2020 of about 110 percent of GDP to about 85 percent of GDP, now about ten percentage points above its 50-year average. The recent drop is mostly due to inflation but also a result of governments curbing borrowing. Household and corporate debt have also fallen by about 25 percentage points, reaching their lowest levels since before the financial crisis.

Currency and deposits, at about 1.7 times GDP, have sharply corrected from their 2020 peak due to quantitative tightening and inflation, but they have remained about 15 percentage points above their average since the mid-1990s.

Finally, productive capital, which has mostly moved in line with GDP over time, saw a brief spike during the pandemic, although this was partially attributable to a drop in GDP in 2020. Growth has been sluggish since then, and investment in productive assets and intellectual property has not kept up.

The eurozone balance sheet signals sustained demand weakness and secular stagnation

European households face a double whammy from housing. Inflation-adjusted real estate values have weakened, making homeowners less wealthy. At the same time, households have been hit by higher mortgage rates, which, because of their shorter durations, tend to adjust more quickly to higher interest rates than in the United States.[50] In response, Europeans are paring down their debt and so far have increased savings by three percentage points of disposable income compared to the 2010s (Exhibit 14). As a result, European businesses have even less incentive to invest.[51] Because EU fiscal rules limit the size of budget deficits, it is harder for governments to stimulate the economy.

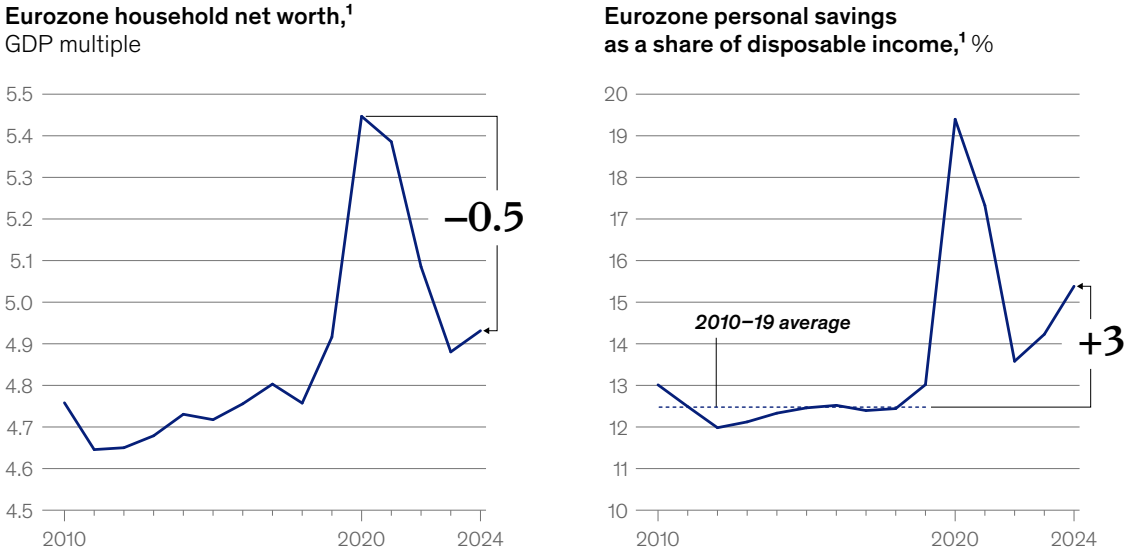
These forces point to a secular-stagnation scenario. This would still lead to wealth growth on the order of $20,000 per capita in Germany through 2033. However, much of this would be on paper, from lower interest rates. Real GDP per capita would expand at about the same sluggish 1 percent annual growth rate of the past 15 years.

One bright spot is that Europe's balance sheet has lower vulnerabilities than those in the United States and China. Equity values remain elevated on a historical basis but far less pronounced than in the United States. This signals greater market optimism for US corporate earnings compared to Europe. However, it makes any potential fallout less severe in Europe if such expectations fail to materialize.

Government debt has receded, nearly converging toward its long-term average. Some vulnerability persists at country levels, however: France and Italy have government debt exceeding 100 percent of GDP, leaving less room for maneuvering and more vulnerability to geopolitical or global financial shocks.[52]

Exhibit 14

Eurozone households have increased saving amid post-pandemic wealth losses and anticipation of higher mortgage rates.



[1]Eurozone-wide results estimates based on data from countries accounting for 85% of eurozone GDP.
Source: National statistical agencies; OECD; Oxford Economics; McKinsey Global Institute analysis

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Competitiveness reform and investment could help put Europe on a productivity acceleration trajectory

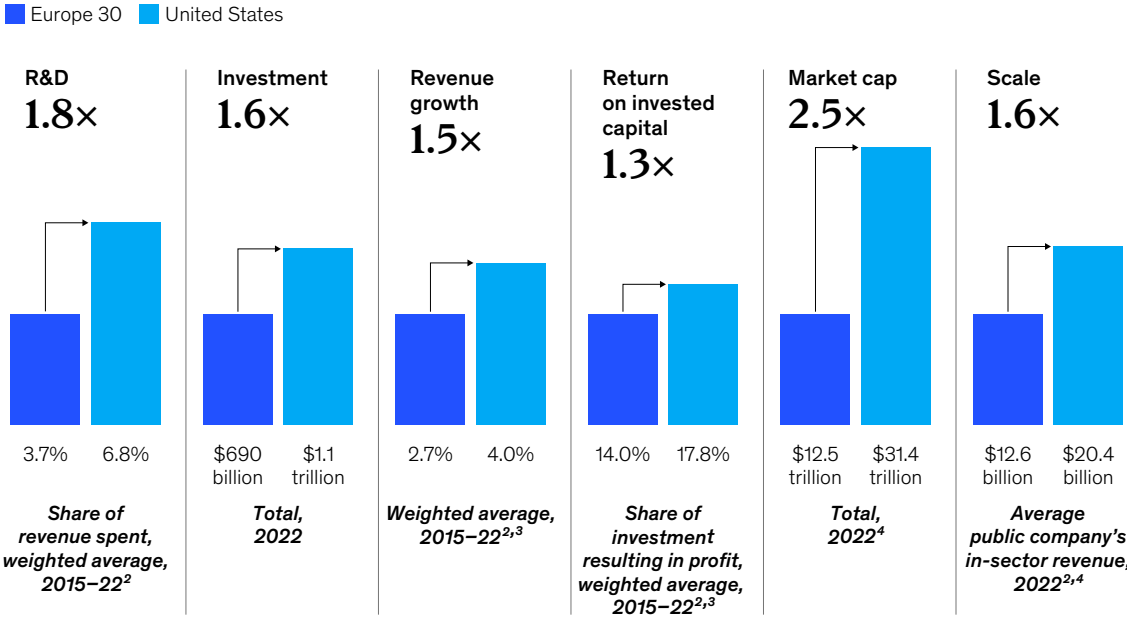
Can Europe escape secular stagnation? The main swing factor is a big enough uptick in productive business investment, enabled by competitiveness reforms. In Germany, our productivity acceleration scenario would come with per capita wealth gains of $25,000 through 2033.

Recent trends have not gone in this direction, however. Corporate investment has declined relative to GDP since 2019.[53] In 2022, large corporations in Europe lagged behind US peers in capital and R&D expenditures by $700 billion and had about 25 percent lower returns on invested capital (Exhibit 15).[54]

Exhibit 15

Large European corporations face competitiveness challenges.

Magnitude of US advantage over Europe 30[1] among companies with >$1 billion in 2022 revenue



[1]"Europe 30" refers to the 27 EU countries plus the UK, Switzerland, and Norway.
[2]Excludes financial services and real estate companies.
[3]Inflation adjusted (2014 as base year) based on Europe 30 and US inflation; US data in dollars, Europe data in euros. Excludes companies without complete revenues, net operating profit less adjusted taxes (NOPLAT), capital expenditure, or invested capital time series in 2014–22.
[4]End of 2022 for public companies with >$1 billion available market capitalization and revenue.
Source: Eurostat; IMF; S&P Global; McKinsey Value Intelligence; McKinsey Global Institute analysis

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From a balance sheet perspective, European equity values trade below net asset values of firms. Eurozone corporations hold more real estate on their balance sheets than productive assets, and stocks of intellectual property lag behind the United States by about ten percentage points of GDP.

How could Europe change course? Proposed policy shifts toward greater investment in defense and infrastructure, as well as in AI, could boost both demand and productivity. Public sector balance sheets, especially in Germany, could be leveraged to fund this investment. Proposals to relax fiscal constraints in Germany suggest this may become a new trend. Rapid implementation of a bold competitiveness agenda, including those highlighted in the 2024 Draghi report and 2025 EU Competitiveness Compass, is central to achieving productivity acceleration.[55]

Europe's balance sheet has recalibrated significantly since its pandemic peak. Going forward, a step-up in corporate investment would be necessary to shift from secular stagnation to productivity acceleration.


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ZARA
lily
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CHAPTER 5

China: The domestic demand imperative

China went through a partial balance sheet reset after the pandemic, which also brought an end to a decades-long boom in the country's real estate and infrastructure investment. Property values corrected sharply. Public debt rose, as is common during a balance sheet reset (see sidebar "How far out of balance is China's balance sheet?").[56]

As a result, China's productivity growth has weakened to nearly half its average annual rate of 7.8 percent in the 2010s.[57] Interest rates gradually declined, and inflation dropped to annual rates of only a quarter of a percent in 2023 and 2024—telltale signs of a weakening economy.[58]

Sectoral imbalances could lead to a secular-stagnation scenario

China's household, corporate, and public balance sheets face imbalances that will be hard to sustain. If unaddressed, they could drive the economy into secular stagnation or worse. The reasons have been much discussed: Households put too much into deposit savings; government deficit spending to offset the demand shortfall appears increasingly unsustainable; investment by the public-controlled corporate sector seems unlikely to pick up the slack.[59] In a secular-stagnation scenario, wealth per capita would grow by just $5,000 through 2033—a major slowdown from the past few decades.

In China, our productivity acceleration scenario would require structural change to the economy. The consumption share of GDP would need to step up significantly. In our model, a productivity acceleration entails an increase of six percentage points in private consumption as a share of GDP from 2024 to 2033,[60] on a par with the drop in household investment following the property collapse (see below).[61] This is in addition to much-discussed general improvements in business confidence to compensate for the lost ground in property and private business investment.[62] In this scenario, real wealth per capita could grow by about 50 percent through 2033, equivalent to $25,000. While growth in the economy and wealth would still slow by historical standards, these shifts would be more sustainable in the long term, driven less by rapid investment and net exports and more by consumption.

Sidebar

How far out of balance is China's balance sheet?

China's asset values hit a high point relative to GDP during the pandemic. Following 2021, however, real estate declined in absolute terms, and equity did not keep pace with GDP. In contrast, debt, currency and deposits, along with productive capital all exceeded GDP growth (exhibit).

While long-term averages can add a helpful frame of reference to gauge the US and European balance sheets, they need to be considered with historical context in China. Balance sheet data for China begins in the late 1970s, when its economy began to open up to international markets. China's economy then went through a tremendous transformation of capital and financial deepening, building up cities, infrastructure, major manufacturing bases, and a financial system to support growing incomes and business.

Various unique aspects of China's development appear in its balance sheet. Since the 1990s, household assets have outgrown government assets, with the value of household real estate more than tripling relative to GDP from the mid-1990s to the pandemic, reaching 2.6 times GDP at its high point. Government real estate, meanwhile, has declined over time relative to GDP, potentially as a result of sales of land use rights to households and corporations.[1] This represents a significant shift from the 1970s and 80s, when government real asset holdings were more than five times those of households.

Even with this context in mind, China's balance sheet is large by historic and global standards relative to its economy in several pockets.[2]

Equity has steadily grown over time but particularly accelerated in the early 2000s as the market matured. It has moderated over the past decade and was 2.8 times GDP as of 2024, in between the United States (3.2) and the eurozone (2.2).

Debt gradually climbed relative to GDP from the late 1970s to about 2010, after which it began to grow rapidly (starting in 2009 for households and corporations and in the mid-2010s for government). It has doubled in total relative to GDP in the past 15 years and, as of 2024, reached an all-time high of 3.1 times GDP.[3]

Currency and deposits have also steadily grown over time, reaching an all-time high value of 2.6 times GDP in 2024.

And even productive assets, usually a sign of strength, have moved out of sync with GDP, signaling overinvestment, particularly in infrastructure, which doubled in value relative to GDP in the past 15 years. Productive assets are now almost twice as high as in Europe or the United States as a factor of GDP.

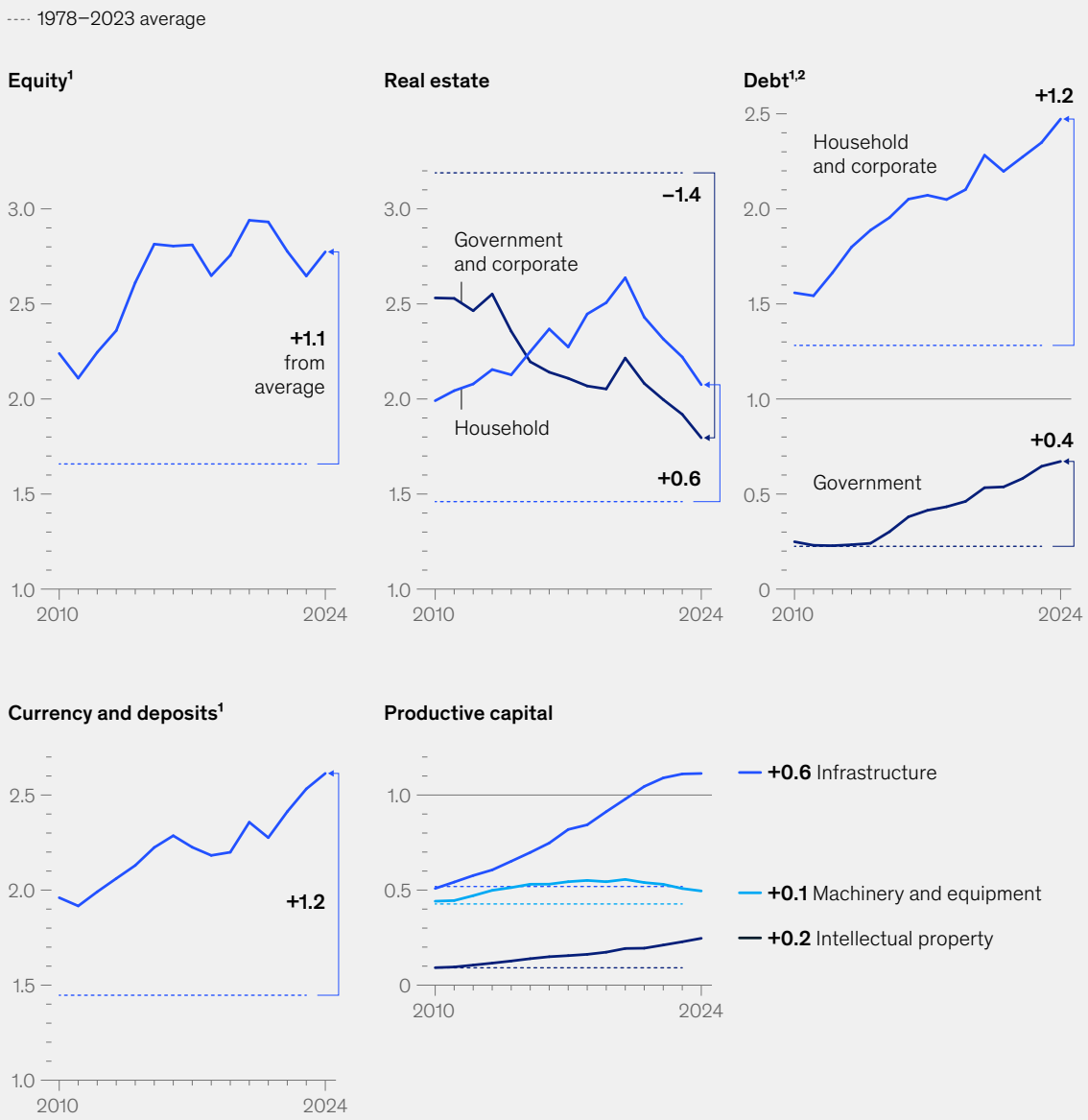
[1] See the technical appendix for greater detail.
[2] Real estate values on balance sheets may be overstated, based on property loan disposals by banks. Credit rating agency Fitch expects property nonperforming loan ratios to be 4 to 5 percent in 2025, similar to the share seen in the past few years. See "China banks ramp up bad property loan disposals to boost economy," Bloomberg, March 26, 2025.
[3] 2024 financial asset and liability data for China reflect the first half of the year. See the technical appendix for more detail on data collection and estimation.

How far out of balance is China's balance sheet?

Exhibit

China's balance sheet has seen a correction in real estate, while debt and productive assets have continued to grow.

Value of select China balance sheet items, GDP multiple



[1]2024 financial asset and liability figures reflect midyear estimates.
[2]Includes bonds and loan liabilities; excludes debt of financial corporations. OECD values at current market prices; see technical appendix for further details.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; McKinsey Global Institute analysis

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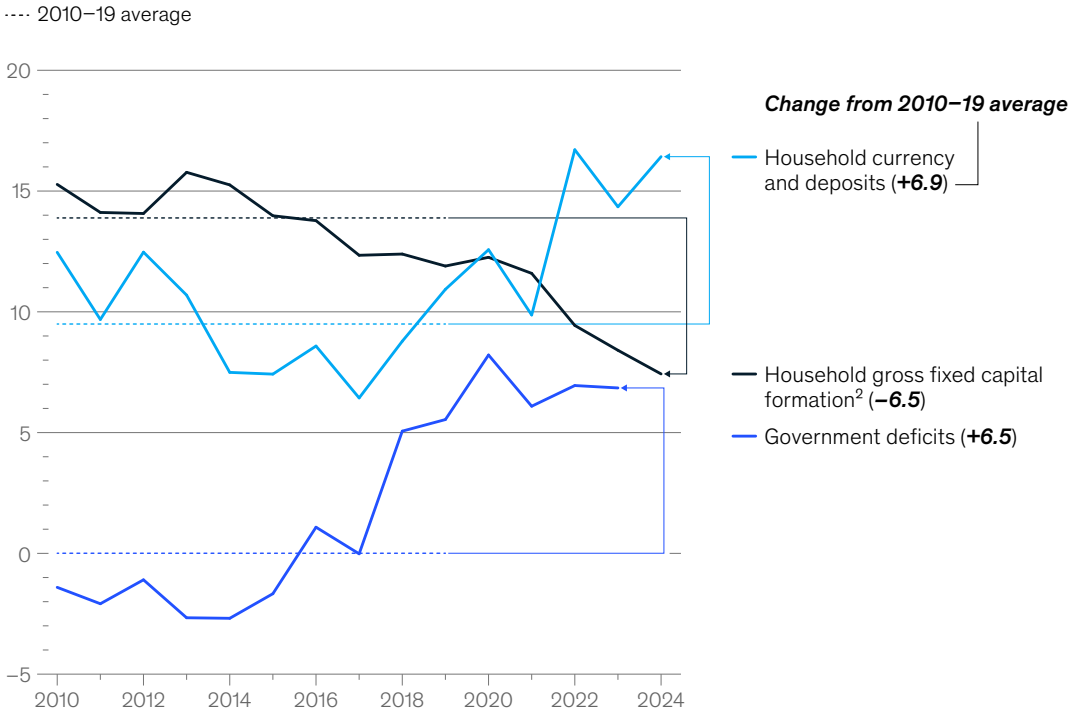
So far, consumption remains much weaker than needed for a balanced economy and to fill the gap left by the property sector, which also faces significant structural demographic headwinds going forward (Exhibit 16). Meanwhile, household saving rates have remained high.[63] Instead of channeling funds from property to consumption, households rapidly grew their deposits on the order of nearly seven percentage points of GDP per year. Households lend this money to the rest of the economy, including the government, which, in a mirror image to households, grew its deficits by nearly seven percentage points of GDP in an effort to stimulate the economy.[64]

Corporations, meanwhile, raised investment by three percentage points, reaching nearly 28 percent of GDP in 2024, the highest in at least 25 years.[65] Yet much of this reported investment growth has been government controlled rather than led by the private sector, as it was in the past (Exhibit 17).[66]

Exhibit 16

Chinese households put their money into deposits rather than property investment, requiring the government to borrow more.

China's household investment, currency and deposit holdings, and general government deficit as a share of GDP,[1] %



[1]2024 financial asset and liability figures reflect midyear estimates.
[2]For 2023–24, China's total gross fixed capital formation distributed across sectors based on fixed asset investment statistics.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; McKinsey Global Institute analysis

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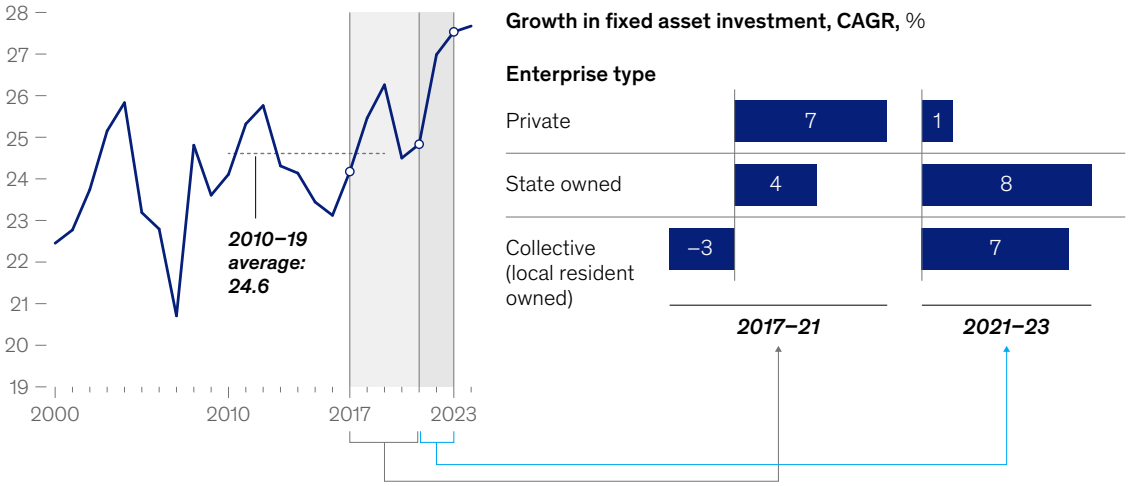
Exhibit 17

The recent uptick in corporate investment appears to be driven by public, rather than private, enterprises.

China's gross fixed capital formation by nonfinancial corporations, as a share of GDP, %



Note: For 2023–24, China's total gross fixed capital formation distributed across sectors based on fixed asset investment statistics.
Source: China National Bureau of Statistics; CEIC; McKinsey Global Institute analysis

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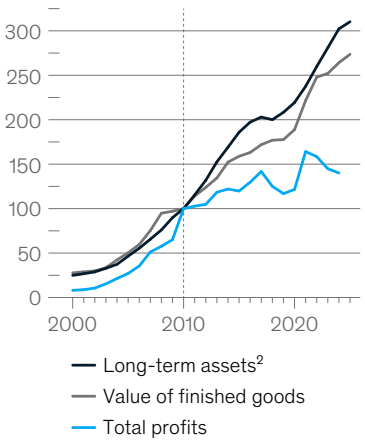
Corporate investment has supported a rapid expansion of production. However, a growing wedge between production and profits following 2010 points to overcapacity (Exhibit 18). At the end of 2024, the officially reported number of loss-making industrial enterprises was 23 percent, the highest in more than two decades.[67] Industrial firms continue turning to exports: The manufactured goods trade balance is now 10 percent of GDP, the highest since 2008.[68]

So far, consumption remains much weaker than needed for a balanced economy and to fill the gap left by the property sector.

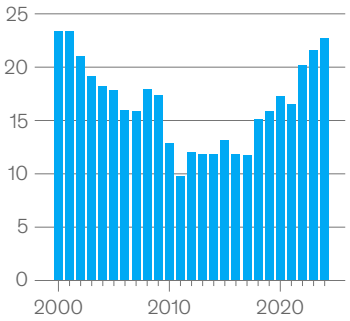
Exhibit 18

Industrial production appears to have grown at the expense of profits, which increasingly rely on exports.

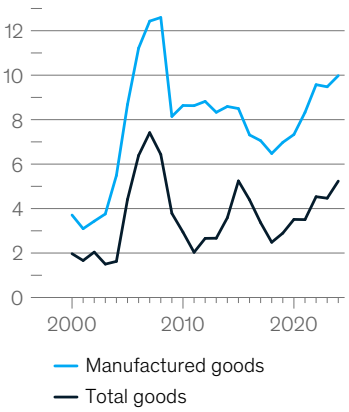
China's industrial production and profits,[1] index (2010 = 100)



Share of Chinese industrial firms operating at a loss, %



China's goods trade balance as a share of GDP, %



[1]2025 data points are through H1.
[2]Total assets minus current assets.
Source: China National Bureau of Statistics; McKinsey Global Institute analysis

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Corporate debt, twice the global average, remains a source of vulnerability

The asset side of the balance sheet has experienced some correction, but liabilities have continued to grow, and judging by official numbers, total debt is now at an all-time high of 3.1 times GDP.[69] Public debt is still low in China compared to many advanced economies, even though it is also the fastest-growing balance sheet item since 2010.[70]

Corporate debt has continued to climb, and at 1.8 times GDP, it is double the global average. It is also high relative to its own asset base: 80 percent of corporate asset values, compared to a 50 percent global average.[71]

A growth slowdown could put debt at risk across the economy, even with interest rates trending down.[72] Escalating trade tensions in key export markets may hinder corporate cash flow and the ability to service debt.[73] Local governments have also lost a historic revenue source, land use rights, as land values have declined and property development has slowed.[74]

Productivity acceleration requires a boost in domestic private demand

How can China escape a trajectory of secular stagnation? At the summary level, the answer is easy to state. China today has ample supply and a proven track record of expanding it—from energy to manufacturing, construction to tech—much faster than other economies. But China probably has too much supply, as evidenced by its continued expansion of capacity despite a precipitous drop in household demand. This supply–demand imbalance is reflected in a growing wedge between production and profits. Therefore, the key question going forward is whether there will be a sufficiently decisive shift in economic priorities toward raising demand to match current and expected supply.

A realistic prescription for how to get there is more challenging. For one, property investment seems unlikely to get back to its pre-collapse share of GDP, in part because a declining population means less demand (even though there is scope to raise floor space per person and building standards).[75] Corporate and public investment already make up a larger share of GDP than would be required for current growth ambitions. Fiscal deficits are higher than what would be sustainable in the long run.[76] And mounting international pressure to reduce imbalances in trade and international investment adds to the pressure to find domestic sources of demand. That effectively leaves household consumption to do the job.

Recent government announcements indicate that raising consumption may become a priority.[77] Plans discussed in 2025 include boosting wages, employment, and the social safety net, including support for child and elderly care.[78] Indeed, social spending on areas such as education and public health has recently accelerated, reaching its highest point in 2025 since at least 2007.[79] Nearly half of China's provinces have announced plans to raise minimum wages in 2025.[80] Other actions have included steps to boost the service sector through business loan interest subsidies as well as trade-in programs to boost durable goods purchases.[81] China has also recently mandated contributions to social insurance for companies and employees in an effort to bolster its pension system.[82]

How successfully China resolves sectoral imbalances may determine whether it creates the demand needed for productivity growth or becomes mired in secular stagnation.

CHAPTER 6

Preparing for a new era

A generation of business leaders, policymakers, and investors grew accustomed to an era of ultra-low inflation and interest rates, expanding debt, and asset prices growing much faster than the economy. The spike in inflation and interest rates following pandemic-era stimulus put an abrupt halt to these trends.

But what comes next? A new era of uncertainty and divergence from historical balance sheet patterns may be settling in. Business leaders can benefit from understanding what balance-sheet-driven economic scenarios mean for their strategies and from monitoring the swing factors between them.

Understand how strategy would transform, depending on the scenario

Some firms may want to build optionality and agility across scenarios, while others may want to place strategic bets. All of them should pressure-test assumptions already built into strategies and business planning. Value creation priorities differ markedly by scenario, as follows:

— *Return to past era (of secular stagnation).* For leaders in the United States and Europe, this scenario might feel like business as usual. Asset values and debt could grow further, benefiting some classes of investors. Leverage would remain a potent tool for raising returns. But wealth would continue to be decoupled from the underlying economy, together with the risks that this entails.

  By contrast, in China, where the past era was one of growth, secular stagnation would involve a marked shift. Asset values would face headwinds from the continued slowing of real estate and declining equity, amid stagnating corporate profits. This scenario would have far lower growth rates than in the past several decades, potentially down to 2 percent annually. Businesses would need to seek pockets of growth.

— *Balance sheet reset.* This scenario would reward businesses with built-in resilience—for example, through a flexible cost base and lower debt exposure. Firms might also limit exposure to market prices in equity and real estate and identify debtors among their business partners that may struggle to repay. Investors may seek protection from asset corrections and defaults—not unlike the 2008–09 financial crisis—by holding more cash. Opportunities for consolidation and M&A could emerge, making preparation essential.

— *Sustained inflation.* In this scenario, which many firms have already encountered since the pandemic, businesses could look to pricing, procurement, and productivity as responses to higher input prices. They could also alter the business-portfolio mix to benefit from healthy demand growth, particularly in investment goods. Locking in favorable conditions—from long-dated maturities in financing to long-term contracts for labor and suppliers—may help hedge against higher costs.

— *Productivity acceleration.* To benefit from growth opportunities, business investment in technology and automation could help capture market share. Labor and materials may become scarcer; businesses should therefore consider how to secure access to both. Investors could find opportunities in equities but face headwinds in rate-sensitive industries like real estate. Fiscal authorities may consider taking advantage of any growth dividend to bring budgets into better balance.

Focus on the swing factors that matter, not on the noise

Only a limited number of key swing factors can really shift an economy from one long-term scenario to another. Focusing on these helps filter signal from noise in the daily flow of indicators, market swings, and political headlines. Some of the more important drivers to monitor include the following:

— *For the United States, the fiscal tightrope and corporate earnings.* If fiscal policy tightens too little, a public-debt crisis or a return of inflation becomes more likely. If it's tightened too much, secular stagnation may be in store. On the corporate-earnings side, an equity or wealth reset could be triggered by a large structural shift in the outlook for the longer-term future—for example, from AI disappointment or large geopolitical disruption.

— *For Europe, unlocking investment at scale.* Beyond already announced defense spending, this would require decisive competitiveness reforms. Look for signs that Europe is making progress toward bridging the $700 billion corporate-investment gap with the United States or reversing the recent three-percentage-point increase in household savings. Policy and trade uncertainty do not fundamentally change the equation.

— *For China, structural strengthening of domestic demand.* Compensating for the drop in property investment would take domestic demand rising by more than six percentage points of GDP. This would require decisive reforms to raise the consumption share of GDP and thus also provide an impetus for private firms to invest more in serving the domestic market.

Of course, business leaders are not mere spectators tracking what happens. If firms plan for a GDP slowdown, they will be less likely to invest. If they anticipate inflation, they may raise prices and trigger the inflation they expect.

Likewise productivity acceleration. According to recent McKinsey Global Institute research, a small number of standout firms contribute the bulk of national productivity growth. Just a few dozen more of the highest-contributing firms may suffice to double productivity growth. Firms themselves ultimately create the very productivity growth needed for their economies and for greater balance in the world.

The global balance sheet is a practical tool for assessing whether strategies and policies by businesses and governments are enough to guide economies toward this ideal path. The balance sheet lens provides a new way to understand the forces driving the long-term outlook for wealth and growth.

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Technical appendix: Balance sheet data overview

This appendix outlines the data sources for national balance sheets and estimation approaches, where applicable.

United States

US balance sheet data for 2024 reflects values through the end of the year. Almost all US balance sheet data from 1952 to the present is directly reported by the Financial Accounts of the United States published by the Federal Reserve. The only items for which we rely on additional sources are the value of government-owned land (which leverages a study published by the Bureau of Economic Analysis) and of mineral resources (which relies on Rystad Energy UCube data and on estimates of gross value added for the mining sector).[83] In addition, we used OECD data to add granularity to the Federal Reserve estimates for sectoral structures, which are not split across different categories: we relied on OECD data to split the total value of structures across dwellings, non-dwelling buildings (for example, offices), and other structures (for example, infrastructure)

We made some adjustments to consolidate financial assets and liabilities within sectors. For example, the household sector balance sheet, which also includes nonprofit institutions and noncorporate businesses, does not include noncorporate equity. This is a nearly identical sum that is reflected as both an asset and liability within the sector, thus canceling out when consolidating. In addition, while the value of structures other than dwellings comes directly from the Fed, we allocate it to "buildings other than dwellings" and to "other structures" (infrastructure) based on the relative size of these items in the other OECD countries in our sample.

Europe and other OECD economies

Data for the balance sheets of all countries in our sample, other than the United States and China, are reported by national statistical agencies via the OECD.[84] Data is available from the OECD beginning in the mid-1990s for most economies, and in most cases continues through 2023 for real assets and through 2024 for financial assets. The exceptions are Italy, for which data is available from 2000; Mexico, for which data is available from 2003; and South Korea, for which data is available from 2008.

In a few instances, we used additional sources and estimates to fill data gaps or to adjust for structural breaks in the data series reported by the OECD and national agencies, as follows:

— For Germany, the methodology used by the national statistical agency (Destatis) to compute the value of non-listed equities changed between 2015 and 2016, resulting in a time series break in the data. We thus adjusted pre-2016 data for a smoother historical time series, assuming that these values grew at the same rate as listed equities. We "backcast" values starting in 2016, applying historical growth rates of listed equity.[85]

— For Italy, most data is available since 2000, but no data for non-dwelling buildings and infrastructure is available prior to 2005. For each sector, we estimated the values for 2000 through 2004 by assuming that the aggregate value of non-dwelling buildings and infrastructure grew at the same rate as that of dwellings, and then backcast this from the starting value in 2005.

— For some European countries (Belgium, Denmark, Ireland, Italy, Poland, and Spain), estimates for land values are available only for households. We estimated the value of land for other sectors by applying the ratio between the value of land and structures owned by households to the value of structures of financial corporations, nonfinancial corporations, and governments.

— For Germany and Ireland, data on inventories for nonfinancial corporations is not available. We estimated it by computing, for every year, the average ratio between the value of inventories and the value of produced assets of nonfinancial corporations for all high-income economies in the data set, and multiplying it by the value of fixed assets of nonfinancial corporations in each country.

Values for 2024 financial assets are based on national central bank data, collected via the OECD quarterly financial accounts databases and reported through the fourth quarter for all countries other than Mexico. While the approach to value financial assets and liabilities used by the OECD is aligned with that used for the financial items of the United States and China, one key difference exists for debt securities liabilities, such as government bonds. The OECD assesses them at market value, while the values provided for China and the United States refer to face or par value (for example, the amount to be paid to bond holders when the bonds mature). The two values can differ significantly when the interest rates prevailing on the market diverge from those on securities outstanding. For instance, the Federal Reserve Bank of Dallas noted that in 2020, the market value of federal debt was about 7 percent higher than its par value; at the end of 2024, it was about 7 percent lower.[86]

Values for real assets in 2024, including real estate and productive assets, are calculated with a perpetual-inventory-method approach using investment data, assumed depreciation rates, and price indexes.[87] We use a range of data sources:

— For gross fixed capital formation and changes in inventories, we use data from the OECD quarterly national accounts.

— Price indexes are provided by IHS Markit. We use output price indexes for housing, construction, machinery and equipment, and scientific research and development, depending on the asset in question.

Capital consumption rates are derived based on data from the French INSEE, the US Bureau of Economic Analysis, and the EU KLEMS database. We backcast balance-sheet items from the earliest year of OECD data availability, applying historical growth rates to the last year of actuals, using a range of sources, as follows:

— *Debt:* IMF Global Debt Database.

— *Equity:* World Inequality Database (WID) via the data series "Market value of corporations (equity liability)."

— *Currency and deposits:* For countries with data available (such as China and the United Kingdom), we used broad money data from the IMF; for other countries, as well as for the eurozone and other regional aggregates, we used the data series "Private - Deposits & Currency" from the WID.

— *Real estate:* WID, via the data series "National housing assets."

— *Productive assets:* WID, series "National other domestic capital," defined as nonfinancial assets owned by the national economy except housing assets, agricultural land, and natural capital.

China

China's balance sheet data is reported by China's Academy of Social Sciences via CEIC for the years 1978 to 2022.

Financial asset and liability data use a similar taxonomy as those from the Fed and OECD for the United States and Europe, respectively. Real asset data is reported by sector as a single total. We thus estimated splits of real assets into individual line items—real estate, productive assets (infrastructure, machinery and equipment, and intellectual property), and inventories—using a collection of external data points and sources, but kept totals anchored in official data.

We started by estimating productive assets and inventories, informed by external data sources. We split productive assets proportionally (based on real asset totals) between government and nonfinancial corporations, with the exception of a share of machinery that was allocated to households. Inventories were entirely allocated to nonfinancial corporations. The sources we consulted include the following:

— Li & Zhang (2017), who provide a national balance sheet account for the 2004–11 period across sectors, with greater asset granularity.[88] We allocated household real assets into real estate and machinery based on the average splits from this work.

— Herd (2020), who provides estimates for China's infrastructure stock up to 2016.[89]

— The OECD and China's National Bureau of Statistics, which provide R&D spending figures for the 1991–2024 period, to inform intellectual property stock.[90] We estimated stock in IP as cumulative R&D spending over time, effectively assuming R&D spending is equivalent to investment in intellectual property, and that the growth in stock valuation offsets depreciation.[91]

— IHS Markit, which provides data on machinery manufacturing apparent consumption and construction and machinery output price indexes, contributing to estimates of machinery and infrastructure.

— China's National Bureau of Statistics also provides gross capital formation and gross fixed capital formation by sector and fixed asset investment data, contributing to estimates of machinery and infrastructure, and inventories of industrial enterprises.

— Rystad Energy UCube and the US Geological Survey 2021 Mineral Commodity Summaries provide data used to estimate the value of natural resource endowments.[92]

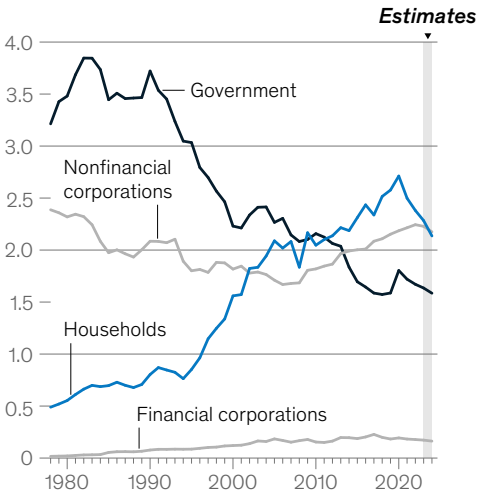
We then calculated real estate as the residual within each sector, after productive assets and inventories were estimated. We split household real estate into structures and land starting with a data point on the share of real estate attributable to land from a 2009 government survey.[93] From there we applied a perpetual inventory method with an assumed depreciation rate, uplift in price index for construction each year, and household gross fixed capital formation. Land was treated as a residual. We then applied the split of structures and land each year to other sectors' real estate.

Ultimately, this approach shows a gradual increase in the real estate share of total real assets leading up to 2000, after which it declined to about 70 percent of total real assets in 2020. The 70 percent figure is in line with the global average share of real estate in real asset totals.[94] At the same time, the decline in government and rise in household real assets point to a transfer of real estate between these sectors (Exhibit 1).

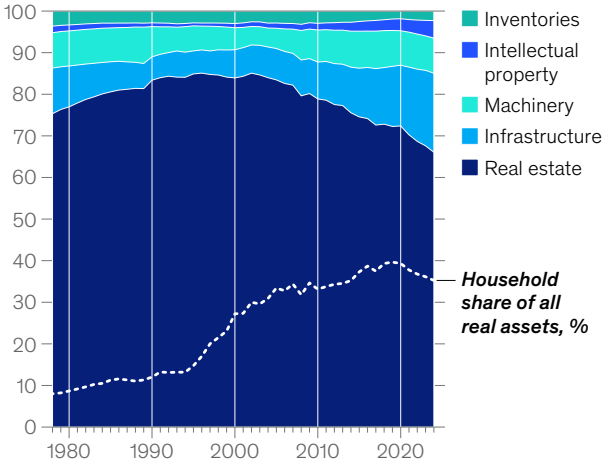
Exhibit 1

China's real assets underwent a major shift from government to households beginning in the 1990s.

China's real assets by sector, officially reported,[1] GDP multiple



Distribution of real assets by type, estimated by McKinsey Global Institute,[2] %



[1]Value of real assets up to 2022 directly provided by the Chinese Academy of Social Sciences via CEIC; data for 2023-24 estimated based on the evolution of variables such as GFCF and price indexes.
[2]Informed by official statistics, wherever available.
Source: CEIC; China National Bureau of Statistics; Herd (2020); IHS Markit; Li & Zhang (2017); People's Bank of China; McKinsey Global Institute analysis

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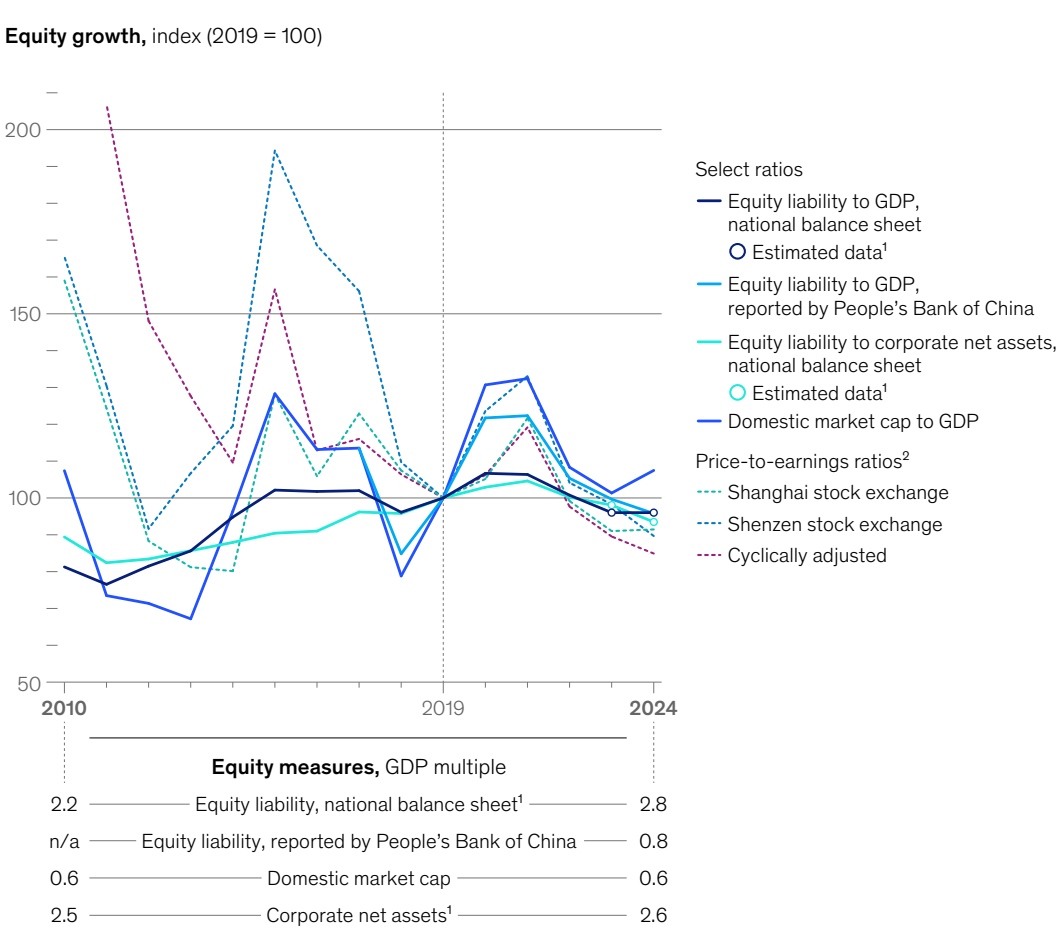
Approach for estimating 2023 and 2024 balance sheet values

We used CEIC data up to 2022 for financial assets and liabilities. We then extrapolated the 2023 and 2024 values based on annual absolute changes in flow of funds stock data from the People's Bank of China. Data for 2024 from the People's Bank of China is available only for the first half of the year. We assumed that the full-year GDP ratio was equal to the GDP ratio for the first half of the year.

Equity values were an exception. They were assumed to grow at the same rate as the total Chinese market capitalization reported by the People's Bank of China. We tested the robustness of this approach by considering the direction of multiple other equity data series, including price-earnings ratios. (Exhibit 2).

Exhibit 2

China's national balance sheet equity follows the same trend as other market equity measures, but with less volatility.



[1]Values up to 2022 reported by Chinese Academy of Social Sciences via CEIC; 2023 and 2024 values estimated based on People's Bank of China data. 2024 figures for China reflect mid-year estimates.
[2]P/E ratios are annual averages. Cyclically adjusted P/E ratio computed by Oxford Economics.
Source: CEIC; Oxford Economics; People's Bank of China; World Bank; McKinsey Global Institute analysis

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To extend real assets to 2024, the first step was to estimate gross fixed capital formation by sector, which has actual values reported only through 2022. We used country-wide gross fixed capital formation and then considered shifts in types of fixed asset investment through 2024. We assumed that household gross fixed capital formation grew at the same rate as investment in residential real estate and then allocated the remaining capital formation across other sectors, assuming their relative share of the total remained constant from 2022.

We then applied varying approaches by asset type:

— *Machinery and infrastructure:* Assumed to grow using the perpetual inventory method, applying an assumed depreciation rate, the uplift in values from the machinery output or construction output price indexes (from IHS Markit), and new investment. To get to the new investment, we estimate the implied investment based on stock changes of the prior years, depreciation, and price uplift, and then apply reported changes in fixed asset investment for machinery and infrastructure from China's National Bureau of Statistics. Sector splits are assumed to be constant from 2022.

— *Intellectual property:* Increase in stock is assumed to be equal to R&D spending for 2023 and 2024, as reported by China's National Bureau of Statistics, continuing our methodology from earlier years. Sector splits assumed to be constant from 2022.

— *Inventories:* Increase in stock is assumed to be equal to inventory formation (the difference between gross capital formation and gross fixed capital formation) for 2023 and 2024, fully allocated to nonfinancial corporations.

— *Real estate:* The structures component of real estate is assumed to grow using the perpetual inventory method, applying an assumed depreciation rate, uplift in construction output price index (from IHS Markit), and investment for 2023 and 2024. Investment growth was based on fixed asset investment growth in household real estate and non-housing real estate for government and corporations. The land component of real estate across sectors was assumed to grow by the change in the China home price index from the Bank for International Settlements.

— *Mineral and energy reserves:* Value is assumed to grow at the same rate as that of the gross value added of the mining sector.

Endnotes

Chapter one

1 Bonds and loans are subsets of total debt. Bonds grow as a result of the quantity of debt issued as well as their market value as a traded financial instrument.

2 For further discussion on the role of productive capital stock on economic growth, see "Investing in productivity growth," McKinsey Global Institute, March 2024.

3 The situation is somewhat different for developing countries, where financial-market development is needed to support a catch-up in financial balance sheets relative to GDP and to help move productive assets toward ratios seen in advanced economies. However, even in these cases, rapid growth in assets such as infrastructure relative to GDP can be a sign of low capital productivity, and debt and financial deepening growth can become excessive.

4 Economist Franco Modigliani conceived the wealth effect. Housing wealth has been found to have a particularly strong positive impact on consumption. See Karl Case, John Quigley, and Robert Shiller, *Wealth effects revisited: 1975–2012*, National Bureau of Economic Research working paper number 18667, 2013.

5 This includes both equities proper and investment fund shares.

6 See James Tobin, *Asset Accumulation and Economic Activity: Reflections on Contemporary Macroeconomic Theory*, University of Chicago Press, 1980. The ratio of a company's market value and the replacement cost of its assets—the amount that would have to be spent to create the existing stock of capital goods—is referred to as Tobin's Q, named after its conceptualizer, James Tobin. In the long term, under perfect competition and in frictionless markets, Tobin's Q should tend toward 1, where the market value of a firm is equal to the replacement cost of its assets. Companies should be motivated to invest when Tobin's Q is greater than 1, because the market places a premium on invested capital relative to the cost of capital. This means that companies would invest in produced assets until equity matches the firm's net asset value.

7 Debt crises may also lead to high inflation, depressed currencies, or measures such as capital controls. For detailed perspectives on how debt crises unfold, see Kenneth Rogoff, *Our Dollar, Your Problem: An Insider's View of Seven Turbulent Decades of Global Finance, and the Road Ahead*, Yale University Press, 2025; and Ray Dalio, *How Countries Go Broke: The Big Cycle*, Avid Reader Press/Simon & Schuster, 2025.

8 This estimate excludes debt liabilities of financial corporations.

9 2024 financial-asset and liability data for China reflects the first half of the year. See the technical appendix for more detail on data collection and estimation.

10 Based on data from World Inequality Database.

11 "Purchasing-power parity" refers to an exchange rate at which the cost of an equivalent set of goods and services is the same across countries.

12 More precisely, it is not the trade deficits but the current account deficit that matches the inflow of foreign capital. Citizens or a country can also use a surplus in foreign investment income to pay for higher imports than exports.

13 Note, however, that the magnitude of cross-border spillovers is as much as or more a matter of gross cross-border flows and holdings compared to net imbalances.

14 As of 2025, 30 percent of Japan's population, and 24 percent of Germany's population, is over 65 years old. For more, see UN World Population Prospects.

15 Based on data from the International Monetary Fund (IMF), China has had the highest stock among countries globally of international reserve assets since 2006, when the stock of these assets surpassed $1 trillion. By 2014, this figure was nearly $3.9 trillion and was more than three times greater than the stock of reserve assets held by Japan, the country with the second-highest stock. As of 2024, the figure for China stood just under $3.5 trillion. Brad Setser of the Council on Foreign Relations estimates that a potential $3 trillion of additional reserves is not counted in official totals but plays an active role in China's management of its currency. See Brad Setser, *The case that China is now actively resisting pressure on the yuan to appreciate*, Council on Foreign Relations, July 2025; and Cormac Mullen, "China has $3 trillion of 'hidden' currency reserves, Setser says," Bloomberg, June 30, 2023.

16 According to IMF data, foreign direct and portfolio equity assets in China were 20 percent of GDP, while foreign direct and portfolio liabilities were 25 percent of GDP. In Germany, these figures were 109 percent and 50 percent of GDP, respectively.

17 While the dollar has been declining in its share of global reserves, it still represents more than half, and no other currency has a share greater than 20 percent. The dollar is also on one side of more than half of international payments and foreign trade invoices. See Sam Boocker and David Wessel, "The changing role of the US dollar," Brookings Institution, August 2024. The dollar could lose share over time; however, it will not likely lose its dominance imminently. See Kenneth Rogoff, *Our Dollar, Your Problem: An Insider's View of Seven Turbulent Decades of Global Finance, and the Road Ahead*, Yale University Press, 2025. It is also worth noting that some are concerned that if US deficits are not reined in, the amount of Treasuries on the market may exceed demand.

18 The decline in government debt in the eurozone is based on data from the OECD, capturing loans and debt securities. This data differs from the European Central Bank's, which show a small increase in debt for eurozone governments during this time.

19 Figure based in nominal renminbi terms.

20 2024 financial asset and liability data for China reflects the first half of the year. See the technical appendix for more detail on data collection and estimation.

Chapter two

21 "Europe" as an aggregate refers to the eurozone, comprising 20 countries in the European Union that have adopted the euro as their national currency as of 2024. Throughout this work, we also show data for major European economies, including the United Kingdom. "China" refers to mainland China.

22 American economist Alvin Hansen coined the term "secular stagnation" in 1938. Lawrence H. Summers revived it in 2013 to describe the state of the US economy following the global financial crisis, particularly as one characterized by low investment.

23 Based on data from Robert Shiller. As of the end of 2024, the cyclically adjusted price-to-earnings ratio was 37.7; the ratio climbed higher than that only at the end of 2021 and during the dot-com boom in 1999 and 2000.

24 Baseline growth expectations are based on forecasts from the IMF's April 2025 *World Economic Outlook* report, which contains a US real GDP growth projection of 2.0 percent from 2024 to 2030. We extend this average annual growth rate through 2033. Scenario-specific GDP projections are based on modeling under the Oxford Global Economic Model, as described in the sidebar "How we model scenarios and their balance sheet outcomes."

25 Adjusted for purchasing-power parity, Germany's GDP per capita in 2024 was $71,000. In a productivity acceleration scenario, 2033 GDP per capita could be $90,000, while a return to past era sees GDP per capita of only $78,000, widening the gap with US GDP per capita by $18,000.

26 Baseline growth expectations are based on forecasts from the IMF's April 2025 *World Economic Outlook*, which contains a German real GDP growth projection of 0.9 percent from 2024 to 2030. We extend this average annual

growth rate through 2033. Scenario-specific GDP projections are based on modeling under the Oxford Global Economic Model, as described in the sidebar "How we model scenarios and their balance sheet outcomes."

27 Baseline growth expectations are based on forecasts from the IMF's April 2025 *World Economic Outlook*, which contains a China real GDP growth projection of 3.9 percent from 2024 to 2030. We extend this average annual growth rate through to 2033. Scenario-specific GDP projections are based on modeling under the Oxford Global Economic Model, as described in the sidebar "How we model scenarios and their balance sheet outcomes."

28 Sustained inflation would also see a shift toward greater domestic consumption; however, it would tilt the scales too far, resulting in high inflation and erosion of real wealth values.

29 Baseline economic projections or consensus estimates often do not capture the inherent uncertainty stemming from elevated balance sheets and geo-economic developments. They largely average out the uncertainty. It is noteworthy, however, that baseline projections for GDP growth appear broadly consistent with a sustained-inflation scenario or close to those of a productivity acceleration scenario in the United States and China, and a secular-stagnation scenario in Europe.

30 Growth rates shown are thus not comparable to asset performance. They also do not include asset income like dividends or interest payments.

31 For more on Japan's "lost decades," see Takeo Hoshi and Anil K Kashyap, "Japan's financial crisis and economic stagnation," *Journal of Economic Perspectives*, volume 18, number 1, Winter 2004; and Yang Hu and Les Oxley, "Bubble contagion: Evidence from Japan's asset price bubble of the 1980s–90s," *Journal of the Japanese and International Economies*, volume 50, September 2018.

32 As of 2023, bilateral trade as a share of GDP across China, Europe-30 (the European Union plus the United Kingdom, Norway, and Switzerland), and the United States ranged from 2.2 to 5.3 percent, according to data from UN Comtrade and the World Bank. Europe in particular has grown its trade with China and the United States, even as the latter two have reduced their bilateral trade. As of the end of 2024, the value of China's US Treasury holdings was equal to 4 percent of its GDP, while the European Union's US Treasury holdings were equal to 10 percent of its GDP, according to data from the US Treasury.

33 Note that we are purposefully simplifying and focusing on investment as our primary productivity factor, although other factors such as R&D and dynamic labor markets are also important. Investment has historically driven 80 percent of productivity growth globally. See "Investment: Taking the pulse of European competitiveness," McKinsey Global Institute (MGI), June 2024, and *Investing in productivity growth*, MGI, March 2024.

34 In a closed economy, the availability of capital (savings) and demand for capital (investment) must always be equal. In an open economy, savings and net capital inflows must equal investment. Desired (ex ante) savings and investment in an economy are brought into balance by the clearing interest rate. For a given amount of desired savings in an economy, higher desired investment will push up interest rates, and vice versa.

Chapter three

35 US productivity growth rates are based on data from the Bureau of Labor Statistics for output per hour in the nonfarm business sector as of March 2025; the relative differences in growth rates with other major economies are based on data from The Conference Board. South Korea, Canada, France, and Germany are among the large economies that have faced slowing or even negative productivity growth in recent years.

36 See *The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow*, McKinsey Global Institute, September 2025.

37 As profits as a share of GDP have grown, so has the aggregate interest coverage ratio (ICR), a measure of total nonfinancial corporate earnings before interest and taxes (EBIT) against interest expenses. As of the third quarter of 2023, ICRs of public corporations were nearly double the level they had been two decades prior, indicating that firms have significant space to shoulder higher interest burdens. A 2024 Federal Reserve study found that across a baseline and downside scenario, firms overall remained resilient to higher rates, with the ICR dropping back to the level seen in the early 2000s in the steepest downside scenario through 2026. The study noted that corporate balance sheets overall are healthy, given low rates on existing debt and only moderate expected refinancing needs in the coming years. Beyond the aggregate numbers, 20 percent of firms as of the end of 2023 had high debt risk (defined as an ICR less than two), which had steadily declined from 50 percent of firms in the early 2000s. In the steepest downside scenario, this figure ticked up to 40 percent by 2026, back to the level seen around the time of the global financial crisis. Thus, while the overall corporate sector looks stable, a sizable number of firms could face debt stress in the case of a sharp hit to profits. See Dalida Kadyrzhanova, Ander Perez-Orive, and Eliezer Singer, *Stress testing the corporate debt servicing capacity: A scenario analysis*, Federal Reserve Board of Governors, May 2024. As further tail risk, this could result in a hit to confidence within a financial sector that is seeing increasing levels of interconnection between long-term asset management (such as insurance) and credit markets.

38 The liability side of US household balance sheets does not seem to be under pressure. Household debt declined relative to GDP, and 70 percent of the drop was among the bottom half of households by wealth, based on data from the Federal Reserve's Distributional Financial Accounts. Beyond mortgages, consumer debt payments also remain historically low.

39 The Economic Policy Uncertainty Index for the US reached an all-time high in April 2025.

40 See Robert Shiller, *Irrational Exuberance*, third edition, Princeton University Press, 2015.

41 Some researchers have argued that market responses to AI represent another "hype cycle," or boom in valuations. See, for example, David Gray Widder and Mar Hicks, *Watching the generative AI hype bubble deflate*, Harvard Kennedy School Ash Center for Democratic Governance and Innovation, November 2024.

42 Figures are approximate and include directly held equity as well as equities indirectly held through investment fund shares and pension funds.

43 Figures reflect general government debt. General government deficit value is reported by the IMF. According to the US Congressional Budget Office, federal government deficits in 2024 were 6.4 percent of GDP, and federal government debt held by the public was just below 100 percent. According to the Fed Financial Accounts of the United States, general government debt (including bond and loan liabilities of federal, state, and local government entities) amounts to about 120 percent of GDP.

44 US Treasury Monthly Statement of the Public Debt, June 2025.

45 This is a point discussed in both Christina D. Romer and David H. Romer, *Fiscal space and the aftermath of financial crises: How it matters and why*, Brookings Papers on Economic Activity, Spring 2019; and Jason Furman, "Eight questions—and some answers—on the US fiscal situation," in *Strengthening America's Economic Dynamism*, Melissa S. Kearney and Luke Pardue, eds., Aspen Institute, 2024.

46 For further discussion of what might prompt a fiscal consolidation, see Jason Furman, "Eight questions—and some answers—on the US fiscal situation," in *Strengthening America's Economic Dynamism*, Melissa S. Kearney and Luke Pardue, eds., Aspen Institute, 2024.

47 Economist Kenneth Rogoff explains that sovereign debt crises may unfold in three different ways: a default on debt, high inflation reducing the value of debt, or financial repression (compelling individuals or institutions to hold government bonds against their will). See Kenneth Rogoff, *Our Dollar, Your Problem: An Insider's View of Seven Turbulent Decades of Global Finance, and the Road Ahead*, Yale University Press, 2025.

48 For further discussion, see Ray Dalio, *How Countries Go Broke: The Big Cycle*, Avid Reader Press/Simon & Schuster, 2025.

Chapter four

49 The simultaneous uptick in inflation and drop in productivity indicates that inflation was primarily driven by supply-side forces, in particular higher energy prices. This is in contrast to the United States, which saw upticks in both inflation and productivity, indicating that inflation was driven by higher demand. See Kevin Lansing, "Is demand or supply more important for inflation?" Federal Reserve Bank of San Francisco, June 2025.

50 One major exception is France, which has long-term fixed-rate-mortgage prevalence on a par with that of the United States. See Pon Sagnanert and Xiaoqing Zhou, "U.S. 30-year mortgage predominance doesn't seem to delay impact of Fed rate hikes," Federal Reserve Bank of Dallas, January 2024.

51 The McKinsey Global Institute (MGI) has published extensively on this subject. See *Accelerating Europe: Competitiveness for a new era*, MGI, January 2024; "Investment: Taking the pulse of European competitiveness," MGI, June 2024; *A new future of work: The race to deploy AI and raise skills in Europe and beyond*, MGI, 2024; and *Europe in the intelligent age: From ideas to action*, MGI and the World Economic Forum, 2025.

52 A sudden shock related to income, geopolitics, or domestic politics could expose high government debt. The worst-case scenario would be a balance sheet reset echoing the sovereign-debt crisis in Europe during the 2010s. Compared to that period, however, larger economies facing both high debt and weak GDP growth would be in the hot seat, with bigger spillovers to the rest of the continent.

53 Based on data from the OECD.

54 "Investment: Taking the pulse of European competitiveness," McKinsey Global Institute, June 2024.

55 The Draghi report outlines a road map for raising European competitiveness. Its strategic recommendations span three action areas: closing the innovation gap with the United States and China, advancing decarbonization and aligning it with competitiveness, and increasing defense capacity while reducing dependencies. Mario Draghi, *The future of European competitiveness: Part B: In-depth analysis and recommendations*, European Union, September 2024; "What is the EU's Competitiveness Compass and what is it designed to achieve?" World Economic Forum, January 2025, updated June 2025.

Chapter five

56 China's balance sheet data is informed by officially reported statistics, including those on debt. For more detail on data sources for China's balance sheet, see the technical appendix.

57 Based on data from The Conference Board.

58 Based on data from Oxford Economics.

59 See, for example, Martin Wolf, "China's economic ills are serious but not incurable," *Financial Times*, October 15, 2024; Michael Pettis, "China's problem is excess savings, not too much capacity," Financial Times, April 29, 2024; and Paul Krugman, "Why is China's economy stumbling?," *New York Times*, August 10, 2023.

60 As described in the sidebar "How we model scenarios and their balance sheet outcomes," we use the Oxford Global Economic Model to translate our scenarios into economic outcomes.

61 Multiple means of estimating the step-up required, beyond those listed here, are available. One could also benchmark other economies, especially those with historically low consumption, such as Japan. Michael Pettis highlights a ten-percentage-point difference between China's consumption as a share of GDP and Japan's lowest consumption relative to GDP, in 1991. See Michael Pettis, "China needs a very high consumption share of GDP growth," Carnegie Endowment for International Peace, September 2024.

62 S&P Global's triannual Global Business Outlook Survey shows that only 17 percent of business leaders in China say they expect an expansion of business activity, compared to just over 20 percent in the eurozone, about 35 percent in the United States, and 26 percent on average globally. Confidence in future growth is a critical factor for any profit-oriented business leader when considering undertaking an investment. See "S&P Global China business outlook," S&P Global, March 2025.

63 China's personal saving rate was 30 percent of disposable income in 2024, based on data from Oxford Economics.

64 Deficits based on net lending and borrowing (flow of funds) data for general government from the People's Bank of China. The equivalent figures reported by the IMF were 6.7 percent of GDP in 2023 and 7.3 percent in 2024. This differs from the official budget deficit of 3.8 percent in 2023 and 3.0 percent in 2024. This appears to be due to definitional differences between official deficits and other definitions of "net lending and borrowing." The official figure includes headline revenue and expenditures, with some adjustments, while the IMF includes social security revenue and expenditures, state-owned-enterprise-fund revenues and expenditures, and managed-fund expenditures financed by land sales, bond issuance, and carryover. See *People's Republic of China, 2024 Article IV consultation—press release; staff report; and statement by the executive director for the People's Republic of China*, IMF Country Report number 24/258, IMF, August 2024.

65 2024 estimate based on total gross fixed capital formation, historical gross fixed capital formation by sector, and fixed-asset-investment breakdowns.

66 This shift has implications for overall productivity. One study found that private firms in China are 53 percent more productive than state-owned enterprises. See Yuyu Chen et al., "Privatization and productivity in China," *The RAND Journal of Economics*, volume 52, number 4, Winter 2021. Harrison et al. found that private enterprises in China were 30 percent more likely to file a patent in a given year than state-owned enterprises per million renminbi in total assets. Ann Harrison et al., *Can a tiger change its stripes? Reform of Chinese state-owned enterprises in the penumbra of the state*, National Bureau of Economic Research, working paper number 25475, January 2019.

67 Based on data from China's National Bureau of Statistics.

68 Based on data from China's National Bureau of Statistics.

69 Based on data from China's Academy of Social Sciences (CASS)provided via CEIC, and People's Bank of China, as of midyear 2024. We use values reported by CEIC through 2022, given their longer historical availability, and then for 2023 and 2024 add reported financial flows from People's Bank of China. Stock values directly reported by People's Bank of China put debt at three times GDP. Note these values do not include the financial sector; if those values are included, the total debt figure grows to 3.5 times GDP.

70 This does not include off-book local government debt, which the IMF estimates to be 50 percent of GDP in 2024. See *People's Republic of China, 2024 Article IV consultation—press release; staff report; and statement by the executive director for the People's Republic of China*, IMF Country Report number 24/258, August 2024. The IMF estimates total government debt including local government financing vehicles at 124 percent of GDP in 2024.

71 High and growing debt levels relative to GDP in the corporate sector signify that debt is being used for unproductive purposes. State-owned banks have not written down debt associated with nonproductive assets, which would lower earnings and thus GDP growth, but assuage high debt levels. Michael Pettis, a professor of finance at Guanghua School of Management at Peking University in Beijing, has argued that unrecognized losses will eventually result in write-downs and will need to be paid for by households, businesses, government, or some combination. See Michael Pettis, *Using China's central government balance sheet to "clean up" local government debt is a bad idea*, Carnegie Endowment for International Peace, August 2025.

72 As discussed in the sidebar "When does government debt become unsustainable," debt may become unsustainable when interest rates exceed economic growth.

73 Equity could also take a hit in the event of corporate cash flow challenges. This would affect government balance sheets more than household balance sheets, given that governments own more equity assets (1.1 versus 0.5 times GDP).

74 China's land is state owned; however, local governments have historically offered leases to use land, which has become an important source of revenue and collateral for debt. See Tianlei

Huang, *Local governments in China rely heavily on land revenue*, Peterson Institute for International Economics, July 2023.

75 Henry Hoyle and Sonali Jain-Chandra, "China's real estate sector: Managing the medium-term slowdown," IMF, February 2, 2024.

76 Based on the approximately 7 percent figures for general government suggested by both People's Bank of China and the IMF.

77 See, for example, "Trump's tariffs push Xi to overhaul China's ailing growth model," Bloomberg, May 5, 2025.

78 Helen Davidson and agencies, "China plans to 'vigorously boost consumption' to shore up economy," *Guardian*, March 17, 2025.

79 "China's social spending hits highest level in nearly 2 decades," *Guardian*, July 28, 2025, updated July 29, 2025. Economists have cited China's limited social safety net as a major factor in its low consumption share of GDP. See, for example, Longmei Zhang et al., *China's high savings: Drivers, prospects, and policies*, IMF working paper number 2018/277, December 2018.

80 Tang Hanyu, "China pushes minimum wage hikes to spur sluggish consumption," Caixin Global, August 28, 2025.

81 Trade-in programs provide subsidies and discounts to replace home appliances, vehicles, and electronics. "China to continue stimulating consumption, premier says," Reuters, August 18, 2025.

82 "China faces pivotal welfare reform test as court ruling hits jobs, small firms," Reuters, August 20, 2025.

Technical appendix

83 See William Larson, New estimates of value of land of the United States, Bureau of Economic Analysis, US Department of Commerce, April 2015. For a detailed explanation of our energy and minerals asset valuation approach, please see the technical appendix of *Rise and rise of the global balance sheet: How productively are we using our wealth?* McKinsey Global Institute, November 2021.

84 In addition to China and the United States, our sample includes Australia, Canada, France, Germany, Italy, Japan, Mexico, South Korea, and the United Kingdom. We also consider Belgium, Czech Republic, Denmark, Finland, Ireland, the Netherlands, Poland, Romania, Spain, and Sweden, whose balance sheet data is not reported individually but aggregated in an "other EU" balance sheet estimate.

85 Backcasting refers to estimating historical data backward in time starting with an anchor year, based on a price index or other growth rate in an analogous asset or concept.

86 Market Value of U.S. Government Debt, Federal Reserve Bank of Dallas, accessed September 2025. For a further discussion, see "Face and market value of debt securities in official statistics", Office for Budget Responsibility, July 2021.

87 There are two exceptions: for Canada, estimates for 2024 real assets are provided directly via the OECD; for Japan, we computed 2024 real asset values by applying the year-on-year value growth rates published by the Japanese Cabinet Office.

88 Yang Li and Xiaojing Zhang, *China's National Balance Sheet: Theories, Methods, and Risk Assessments*, Springer, 2017.

89 Richard Herd, *Estimated capital formation and capital stock by economic sector in China: The implications for productivity growth*, World Bank Policy Research Working Papers, number 9317, July 2020.

90 Prior to 1990, we model R&D expenditure by multiplying annual GDP estimates from the National Bureau of Statistics by the average ratio between R&D spending and GDP for the 1990s.

91 Given the significant uplift in R&D spending over the past half-century in China, there are limited benchmarks for estimating China's intellectual property. In advanced economies, however, the value of IP stock tends to hold a consistent multiple over time with R&D spending (in the United States this is 7.5, in Germany it is 6). Our cumulation-based estimate of IP stocks in China has an average multiple with R&D spending since 2000 of 6.6, with a standard deviation less than 20 percent of that value. This suggests that this IP stock estimation approach provides results on par with what would be expected in our advanced economy balance sheet data, given reported R&D spending.

92 For a detailed explanation of our energy and minerals asset valuation approach, please see the technical appendix of The rise and rise of the global balance sheet: How productively are we using our wealth? McKinsey Global Institute, November 2021.

93 This estimation was extrapolated from a 2009 survey from the Ministry of Land and Resources of the People's Republic of China, which has since become the Ministry of Natural Resources of the People's Republic of China.

94 See *The rise and rise of the global balance sheet: How productively are we using our wealth?* McKinsey Global Institute, November 2021.

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