

The global balance sheet 2026

Imbalance and divergence

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July 2026



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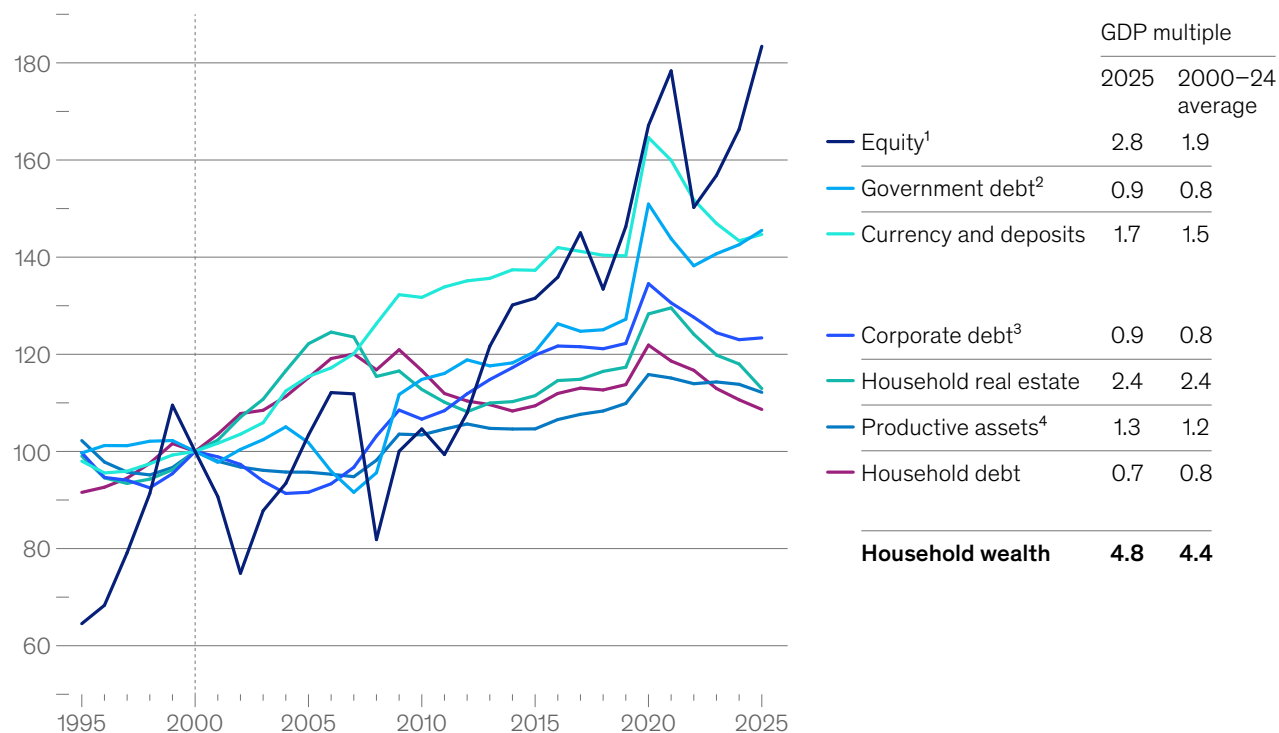
At a glance

- **The global balance sheet takes stock of all assets, liabilities, and wealth, providing a lens into economic health.** This annual update estimates that it reached nearly \$1.8 quadrillion (\$1,800 trillion) in 2025, up from \$1.7 quadrillion in 2024. Several asset classes grew further out of balance with the underlying economy, raising the possibility of corrections through inflation, asset valuation losses, or, optimally, productivity growth.
- **The balance sheet's mounting detachment from the global economy was driven by the world's two biggest economies in 2025.** US equity values soared to 2.4 times corporate net assets as profits were double their share of GDP since 2000. China's corporate debt grew to 80 percent of real assets, versus 50 percent globally. Government debt remains near all-time highs in the United States and has grown most rapidly in China.
- **Globally, most corporate and household debt and real estate moved closer to 25-year averages relative to GDP.** Inflation helped with this normalization, although values remain well above pre-2000 levels. The ratio of productive assets to GDP held steady amid flat investment.
- **Global household wealth growth rose to a new high of \$570 trillion, driven by "paper" gains.** Only 20 percent came from real capital formation, while valuations of existing assets grew four percentage points faster than already-high consumer price inflation. In the United States and Canada, equity values drove wealth growth. China, France, and Germany saw a drop in paper wealth as real estate prices declined. In the United Kingdom and Japan, inflation pushed up asset values.
- **Major economies were on different pathways entering 2026.** The United States has been in a "productivity acceleration" scenario, but high public debt and equities add the possibility of "sustained inflation" or "balance sheet reset". Europe has gravitated toward "secular stagnation" as sluggish demand depresses growth and interest rates. China has experienced a partial balance sheet reset amid declining property values, although government spending and corporate investment have continued to propel balance sheet growth.



Equity, government debt, and liquidity remain near historic highs while other items have shifted more 'in balance' with GDP.

Global balance sheet's largest items as multiple of GDP, index (year 2000 = 100)



Note: The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.

¹Includes shares in publicly and privately held corporations.

²Reflects gross government debt for all countries, including central and local governments, as reported by the International Monetary Fund (IMF). We use a different source for this item because balance sheet values typically are at market value rather than face value, while the latter matters more for public debt sustainability.

³Includes loans and bond liabilities for nonfinancial corporations.

⁴Includes infrastructure, machinery and equipment, and intellectual property.

Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; IMF; McKinsey Global Institute analysis



Introduction

In this report, we provide an update on the global balance sheet in 2025, exploring to what extent its recent expansion, and by extension wealth growth, has been “in balance”. The analysis finds that wealth was, to an even greater extent than previously, rooted in asset values rising faster than real economy investment and growth, creating record levels of global wealth “on paper”.

Although many economies that were studied experienced wealth and balance sheet swings, the global picture was largely driven by its two biggest: the United States and China. Higher US equity values and the accumulation of China’s public and private debt brought some near-term economic benefits but left their economies more vulnerable to potential corrections.

Businesses use both income statements and balance sheets to develop a complete picture of their financial health. Analysts of the global economy tend to focus on the former. Since 2021, MGI has developed a “global balance sheet” to fill this gap, representing a clearer view into the world economy’s wealth and health.

Our previous reports found that from the mid-1990s to the COVID-19 pandemic, household wealth expanded faster than gross domestic product. Asset prices for real estate, equities, and bonds grew, as did debt and deposits. This occurred amid declining (and eventually rock-bottom) interest rates, rapidly expanding US profits, and a property boom in China. Productivity did not keep pace across advanced economies, nor did real wealth formation through net new investment.

When the balance sheet outruns the underlying economy, weaknesses can be exposed. When real estate and equity values rise faster than GDP, capital may disproportionately go to asset repurchases, sometimes with a lot of leverage. This may push up valuations but leave the economy deprived of the type of investment that generates long-run growth. For households, wealth rises but merely on paper, with heightened risks of eventual corrections. Growing asset values also tend to exacerbate wealth inequality, as existing owners of wealth see large gains while entering asset markets becomes harder for others (for example, young households trying to buy a home).

Elevated balance sheets may correct in one of three ways. A *productivity acceleration* scenario involves higher income supporting high asset values and debt; this is the most preferred outcome. A *sustained inflation* scenario brings down the real values of assets and debt, recalibrating the balance sheet with higher nominal GDP. But it can erode inflation-adjusted wealth along with other undesirable side effects. A *balance sheet reset* scenario, entailing a drop in asset values, deleveraging, and defaults, would shrink the balance sheet in absolute terms, with severe wealth losses and, often, lengthy periods of lost economic growth. Or the balance sheet may just stay high, particularly under secular-stagnation-like conditions of low investment and interest rates, as seen in the United States and Europe in the 2010s. That’s seemingly good for wealth, but at the cost of low growth and rising leverage.

Historically, most balance sheet corrections have taken place through higher inflation. Indeed, the inflation coming

out of the COVID-19 pandemic in the United States and Europe brought a correction in the balance sheet (and wealth) ratio to GDP. In China, a drop in property values drove a decline in wealth to GDP.

In 2025, global wealth reached a higher dollar value than ever before. But how “healthy” was this new growth? After postpandemic corrections, some balance sheet items have resumed expansion and reached new heights. This was particularly the case for US equity as AI fueled market optimism and corporate earnings continued to climb. Rising government debt relative to GDP remains a challenge in many economies amid higher interest rates. Stocks of currency and deposits remain high compared to longer-term historical norms. Altogether, this has culminated in even more wealth on paper than in the past several decades and raises the stakes for US corporate earnings to deliver.

Balance sheets, and macroeconomic factors like productivity and inflation, point to diverging trends across major economies. Recognizing the swing factors that can shift an economy to productivity acceleration is more urgent than ever: for the United States, corporate earnings and greater government saving (in other words, less borrowing); for Europe, greater investment; for China, higher domestic consumption.

Future global wealth and stability may depend on it.

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Global wealth growth accelerated over past year. Over half of new wealth was equity—and “on paper.”

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A balance sheet out of kilter with the economy may go one of four ways, with implications for growth, inflation, and interest rates. Watch for the swing factors that could move economies from one trajectory to another.

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The global balance sheet: Latest totals

In 2025, the global balance sheet totaled \$1.8 quadrillion, including \$570 trillion of household wealth. In both cases, this is the highest number ever.

In 2025, MGI's estimates show, the global balance sheet reached nearly \$1.8 quadrillion in total assets, up from \$1.7 quadrillion a year earlier.¹

Building from the bottom up, real assets include the real estate, infrastructure, machinery and equipment, and intellectual property held across households, governments, and corporations. These totaled \$620 trillion, constituting global net worth across sectors.

Financial assets held outside the financial sector include equity, bonds, loans, currency and deposits, and pensions, among other assets. Every financial asset has a corresponding liability, netting out at the global level.² This “financial layer” serves to separate wealth from asset ownership, and it was close to the total value of real assets.

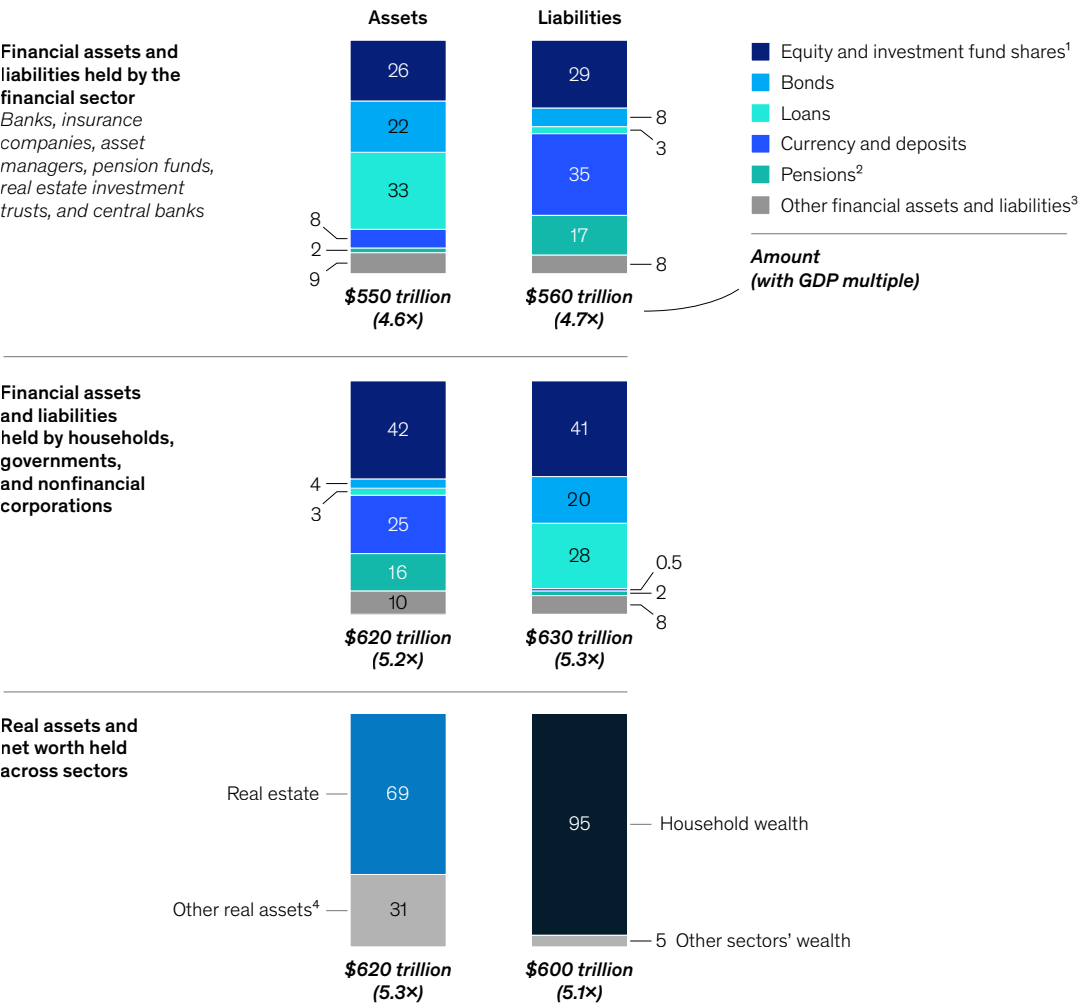
The financial sector, in turn, intermediates these financial assets and liabilities. At \$550 trillion, it has reached 90 percent of the value of real assets.

Wealth is ultimately the balancing item on balance sheets, equaling total assets less liabilities. It was \$600 trillion in 2025.

Exhibit 1

The global balance sheet takes stock of global wealth and health.

Composition of 3 interlocking layers of the global balance sheet, 2025 estimate, %



¹Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds.
²Pensions, 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.
³Includes monetary gold and special drawing rights, receivables, and payables, among others.
⁴Includes 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; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

Each major economic sector has its own balance sheet. They play different roles in the economy and, as a result, have different compositions. Both nonfinancial and financial corporations tend to have very little wealth, because corporate equity is considered a liability to owners of the shares. However, their asset compositions are quite different, with real assets (for example, machinery) playing a significant role for nonfinancial corporations. Governments tend to have some wealth, unless their debt liabilities exceed all assets.

Total wealth across all sectors was \$600 trillion in 2025, with 95 percent owned by households. About half of household wealth is in real assets, mostly property. The other half is financial assets, notably governments through their bonds, nonfinancial corporations via equities, and financial corporations through things like investment fund shares and pension assets.

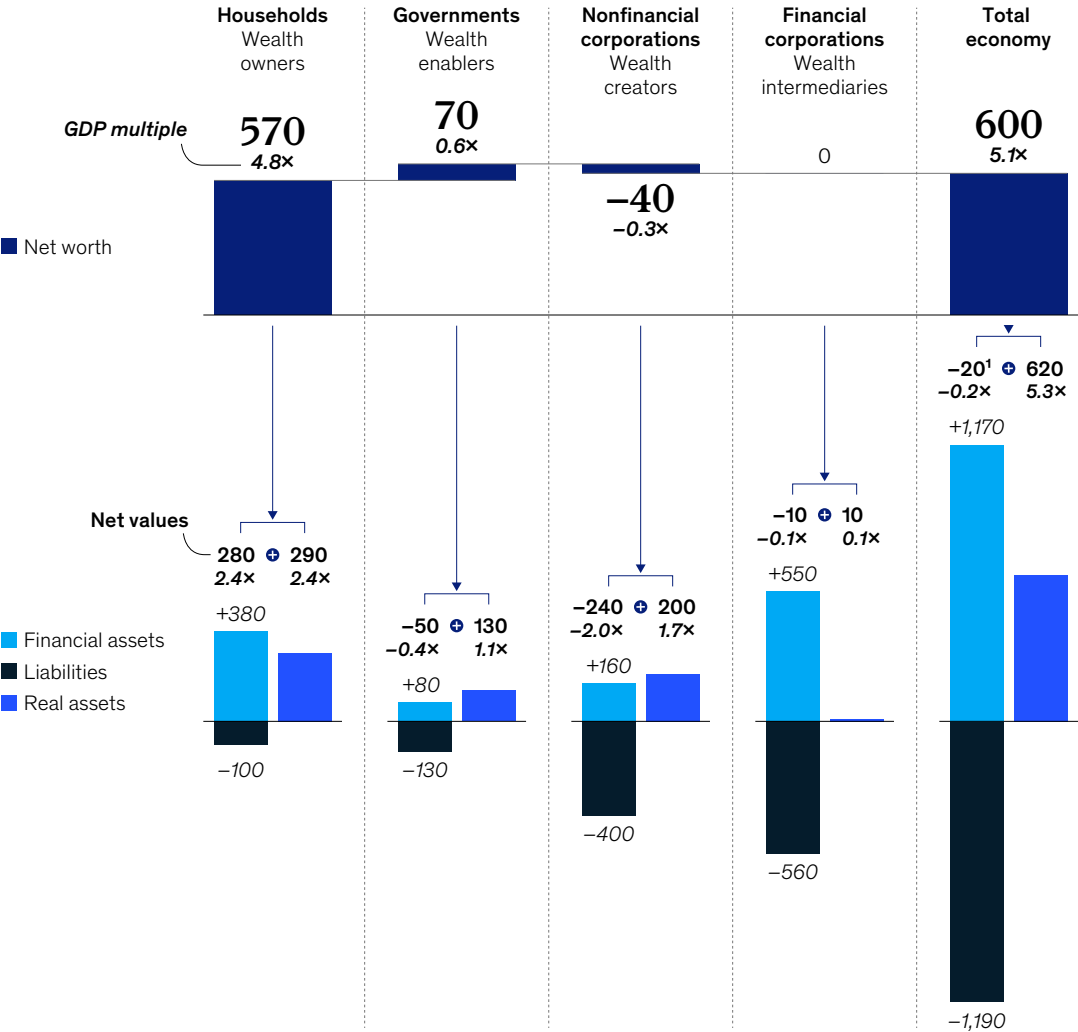
In this report, we focus on household rather than total wealth because it has immediate economic relevance for spending and saving decisions.

The interconnectedness of the balance sheet means that stress in other sectors may ultimately affect household wealth. It is thus important to understand the full balance sheet to gauge how household wealth might evolve.

Exhibit 2

Household wealth is 95 percent of the total and encompasses financial assets from other sectors.

Global wealth by sector, 2025 estimate, \$ trillion



Note: The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025. Figures may not sum to 100%, because of rounding.

¹At the global level, net financial assets are equal to 0. The -0.2x GDP figure here represents the collective rest-of-world position across the countries in our sample.

Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

As of 2025, global household wealth totaled a record \$570 trillion, up \$40 trillion from 2024. That was more than quadruple its value in 2000, at nominal values and market exchange rates. This wealth grew faster than GDP, posing questions about its health and stability (see sidebar “When is wealth growth ‘healthy?’”).

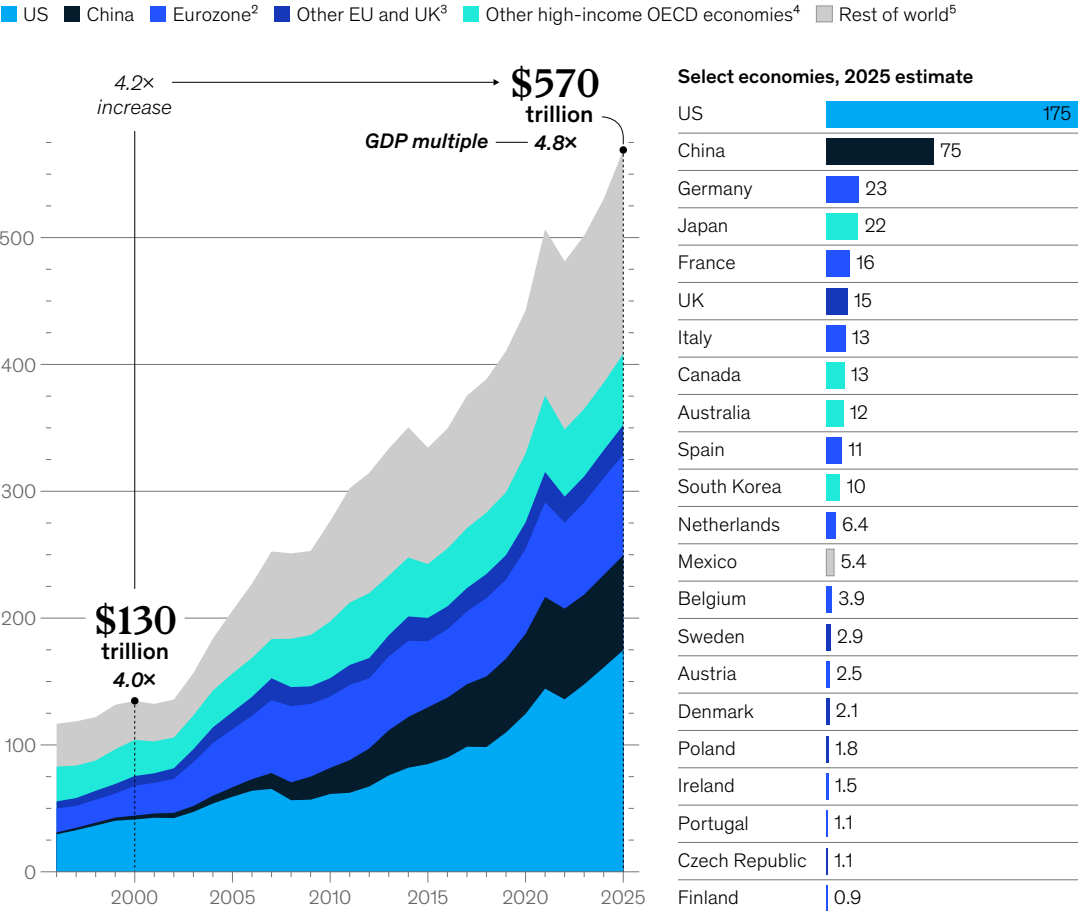
The United States continues to hold the largest share, at 30 percent. The eurozone and China held the next-largest shares, at 14 and 13 percent, respectively.³

At the country level, Poland, Ireland, Spain, and Sweden experienced the highest rates of household wealth growth (in dollar terms), each reaching double digits. Eurozone countries including Austria, France, Germany, Italy, and Portugal saw wealth grow slightly in dollar terms but decline in constant foreign-exchange terms as the dollar fell against the euro from 2024 to 2025.

Exhibit 3

In 2025, household net worth hit a new high of \$570 trillion globally.

Household net worth,¹ \$ trillion (at market exchange rate, nominal values)



¹Implied based on US dollar-denominated GDP of economies shown and global US dollar-denominated GDP.
²Includes economies representing ~95% of total eurozone GDP (Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, and Spain).
³Select economies representing ~90% of total non-eurozone GDP.
⁴Includes Japan, Canada, Australia, and South Korea. ⁵Includes Italy pre-2000, Mexico pre-2003, and South Korea pre-2008 due to data limitations.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Household wealth per capita grew in most countries. However, it did not keep pace with GDP. This resulted largely from slowing real estate values, correcting from pandemic peaks. In many economies, real estate is the largest component of household wealth.

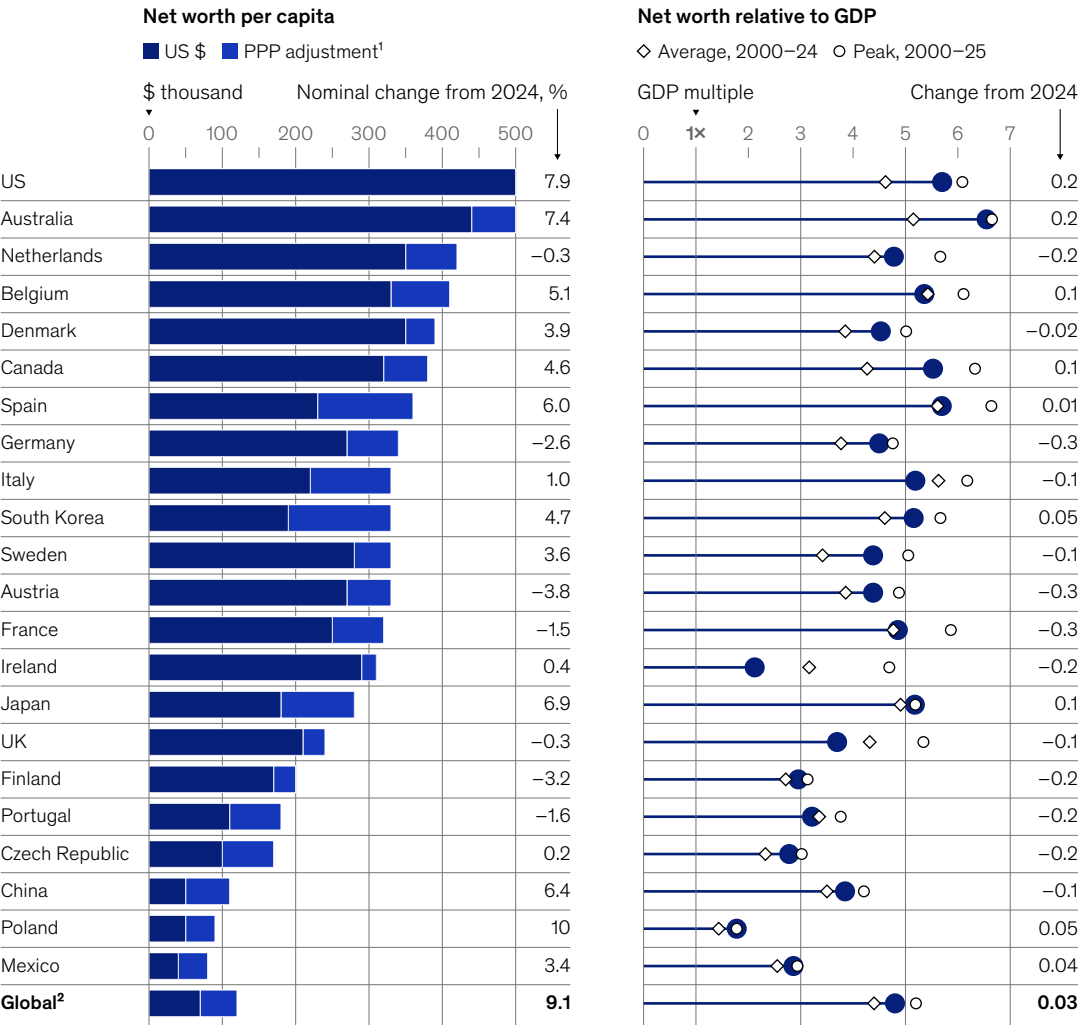
There were multiple exceptions. In the United States and Australia, which have the highest wealth per capita, household wealth expanded by at least 20 percentage points of GDP.⁴ In the United States, this was largely equity driven. In Japan, household wealth as a share of GDP grew by double-digit percentage points. This was more a story of inflation growing and assets keeping pace.

Multiple eurozone countries experienced a decline in per capita wealth in purchasing power parity terms.⁵ This was in large part attributable to declining real estate values.

Exhibit 4

GDP outpaced household wealth in most major economies.

Household net worth, select economies, 2025 estimate



¹Purchasing power parity.
²The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

When is wealth growth ‘healthy?’

What makes a healthy balance sheet? Multiple characteristics, all of which are related to fostering future economic growth and stability, and ultimately wealth, play a role. There is no clearly defined threshold where “healthy” ends and “unhealthy” begins, but comparing trends over time and across countries can reveal imbalances that require careful monitoring and managing.

- **Assets grow broadly in sync with the economy.** In the long run, asset values should reflect the underlying economy: A growing economy provides the basis for savings and investment, and investments in turn expand national output. When valuations outpace the economy (and go beyond global norms), it may signal confidence in future growth for a while. But prolonged disconnects, and notably valuation gains from rising multiples mostly due to changing financial conditions (like lower interest rates and excess liquidity), have a history of course correcting.¹ Excess asset valuations can also have broader negative ramifications, including distorting incentives (capital chasing valuation growth rather than real investment opportunities) and feeding wealth inequality. Ideally, both economic and asset growth are real, rather than linked to inflation, but assets growing in line with inflation wouldn’t signal balance sheet concerns.

In practice, this means that balance sheet items should have relatively consistent ratios to GDP over time (effectively akin to a price-to-earnings ratio, for the broader economy). There is no “golden number” for an ideal GDP ratio for a given asset that can be applied across countries, given unique circumstances, but a good rule of thumb is that it should remain in line with long-term historical averages. This is especially true in advanced

economies. In emerging markets, GDP ratios may climb from a low point as economies build up their capital bases and financial systems.

- **Sustainable debt.** Too much debt may place a drag on future growth via debt service (interest) payments crowding out productive asset investment and can create risks. This risk is particularly pertinent when interest rates rise relative to an economy’s growth rate. Debt can usefully be monitored not only relative to GDP but also relative to underlying assets. Often, debt crises start in specific pockets (for example, sectors [MM1.1], industries, household sectors, instruments) and may spread through the broader economy. By contrast, too little debt could signal undeveloped financial markets, and underinvestment, or unattractive investment conditions.
- **A growing base of productive assets, with appropriate capital productivity.** These include infrastructure, machinery and equipment, and intellectual property. Together, they form the foundation for future production and growth. Of course, productive investment needs to be balanced with growth and demand. A rapid increase in productive capital stock relative to GDP—observed in certain periods in China—may signal emerging imbalances, which could be associated with overcapacity or softer capital productivity. An empty house or road does not create long-term economic value.
- **Balanced or stable cross-border positions.** In other words, net international investment positions that are not growing disproportionately to the economy. These positions reflect, in part, a cumulation of net lending or borrowing, or the difference between domestic savings and investment. Countries that tend to be net savers and net exporters typically have net lending positions, and vice versa. There can be good reasons for temporary

imbalances (a country working through an economic crisis, for instance, will typically be a net saver) as well as longer-term imbalances (for example, an aging population will tend to produce excess savings to draw on when old). But when net foreign liabilities grow fast and large relative to the economy, that can reflect unsustainable indebtedness and insufficient domestic savings and production. And large and growing surpluses can reflect unbalanced domestic demand and investment as well as growing risk exposure if counterparties suffer financial crises, currency devaluations, or geopolitical shocks.

Note that international investment positions can also grow or shrink with valuations. For example, as US equity markets have outperformed those of other economies, the United States has had an increasingly negative position while international holders of US equity assets have had increasingly positive positions.

- **Household wealth growth underpinned by real investment.** If household wealth grows mostly from financial valuations, as discussed above, it is a sign of concern. Sectoral imbalances can also signal risk. Household wealth includes financial claims on the corporate (equity and debt) and public (government debt) sectors, directly or via financial institutions. If these claims exceed the value of assets owned by corporations and governments, or do not generate sufficient income, they eventually turn into a claim of citizens on themselves in their role as customers and taxpayers, respectively. Defaults on debt or collapses in equity values directly affect household wealth through the ownership of financial assets.

Importantly, all of these are early warning signals: In each case, metrics of health need to be understood in the overall context of a country and its economy to determine the exposure to risk.

¹ This is rooted in the financial-economic theory of mean reversion, which states that asset prices, valuation multiples, returns, or profit margins that move significantly above or below their long-run average tend to drift back toward more normal levels over time. The idea is rooted in the belief that extreme outcomes are often driven by temporary shocks, investor overreaction, or cyclical forces, making unusually high or low values more likely to be followed by lower or higher future returns. See, for example, James M. Poterba and Lawrence H. Summers, “Mean Reversion in Stock Prices: Evidence and Implications,” *Journal of Financial Economics*, October 1988, Volume 22, Number 1; and Eugene F. Fama and Kenneth R. French, “Dividend Yields and Expected Stock Returns,” *Journal of Financial Economics*, October 1988, Volume 22, Number 1 and Robert Shiller, *Irrational Exuberance*, third edition, Princeton University Press, 2015.



Is the balance sheet 'in balance?'

Equity, government debt, and currency and deposits are at or near historic highs, while other elements such as real estate and household debt have shifted more “in balance.”

The global balance sheet is a compilation of separate asset classes, which often grow in different ways across countries. More than three-quarters of its value is in real estate, equity, debt, and currency and deposits.

Assessing balance sheet health requires a deep dive into each asset class, to understand how they move over time relative to the underlying economy. We walk through them in this chapter, with a focus on how economies evolved in 2025.

In summary, we find the following:

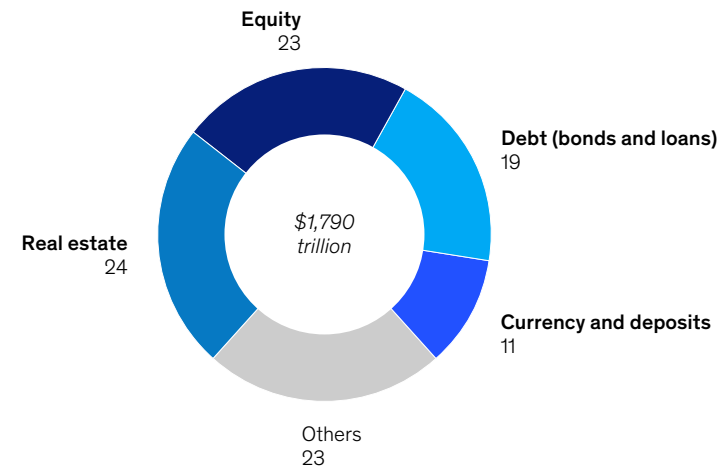
- **Real estate declined relative to GDP across most economies.** Australia was a major exception, and it topped the list of real estate values, at 4.5 times GDP.
- **Equity largely grew.** Relative to GDP, it climbed the most in South Korea, the United States, Canada, and Japan. Of these countries, equity was highest in Canada and the United States, at 3.8 and 3.7 times GDP, respectively.
- **Corporate debt increased the most in China.** Chinese corporate debt reached 1.7 times GDP, the highest among our economies of focus.
- **Government debt continued to expand.** It exceeded 100 percent of GDP in a number of countries, with Japan, Italy, and the United States topping the list (although in Japan, inflation brought this ratio down).
- **Currency and deposits reached new all-time highs in China and South Korea.** Japan still tops the list but also experienced the largest drop amid higher inflation.

At the end of the chapter, we examine other features of balance sheet health, including productive asset formation and cross-border imbalances.

Exhibit 5

Three-quarters of balance sheet value is in four asset classes.

Breakdown of global balance sheet, assets across all sectors, %



Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Real estate

Real estate is the largest single asset on the global balance sheet and, in most economies, the biggest component of household wealth. Globally, two-thirds is held by households.

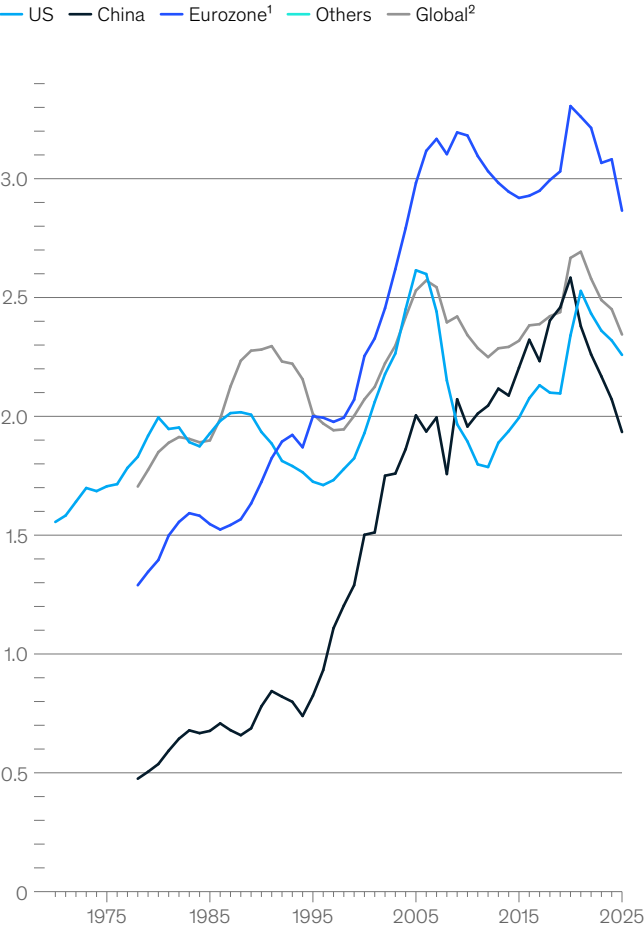
In most economies, household real estate relative to GDP peaked during the pandemic. Since then, values have recalibrated toward long-term averages. In both the eurozone and China, real estate relative to GDP is back down to levels seen two decades ago. Across major economies, real estate values are still higher than what was typical relative to income in the last decades of the 20th century.⁶

In 2025, nearly all economies of focus saw real estate values continue to correct relative to GDP. One exception was Australia, where household real estate grew by more than 10 percentage points of GDP. It also remained the most elevated relative to GDP (by 80 percentage points) compared to its average of the past 25 years.

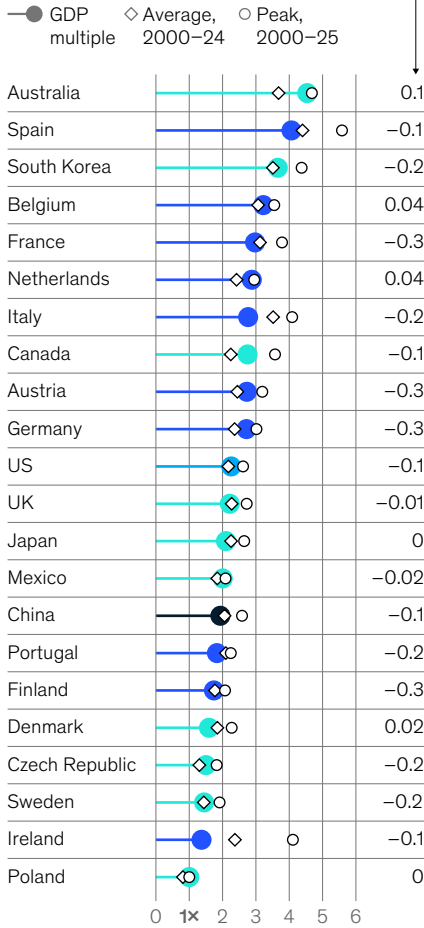
Exhibit 6

Real estate has largely recalibrated toward 25-year averages but remains elevated.

Household real estate assets, GDP multiple



Select economies, 2025 estimate



¹Average of eurozone countries, weighted by GDP.

²Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.

Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

Equity

The second-largest component of the balance sheet is equity, which is a liability for an issuing corporation and held as an asset by households, governments, and financial corporations. The ratio of equity to GDP can be interpreted as a variation of a P/E ratio for an economy; elevated ratios by historical standards indicate high expectations for future growth, while also implying the possibility of correction if growth disappoints.

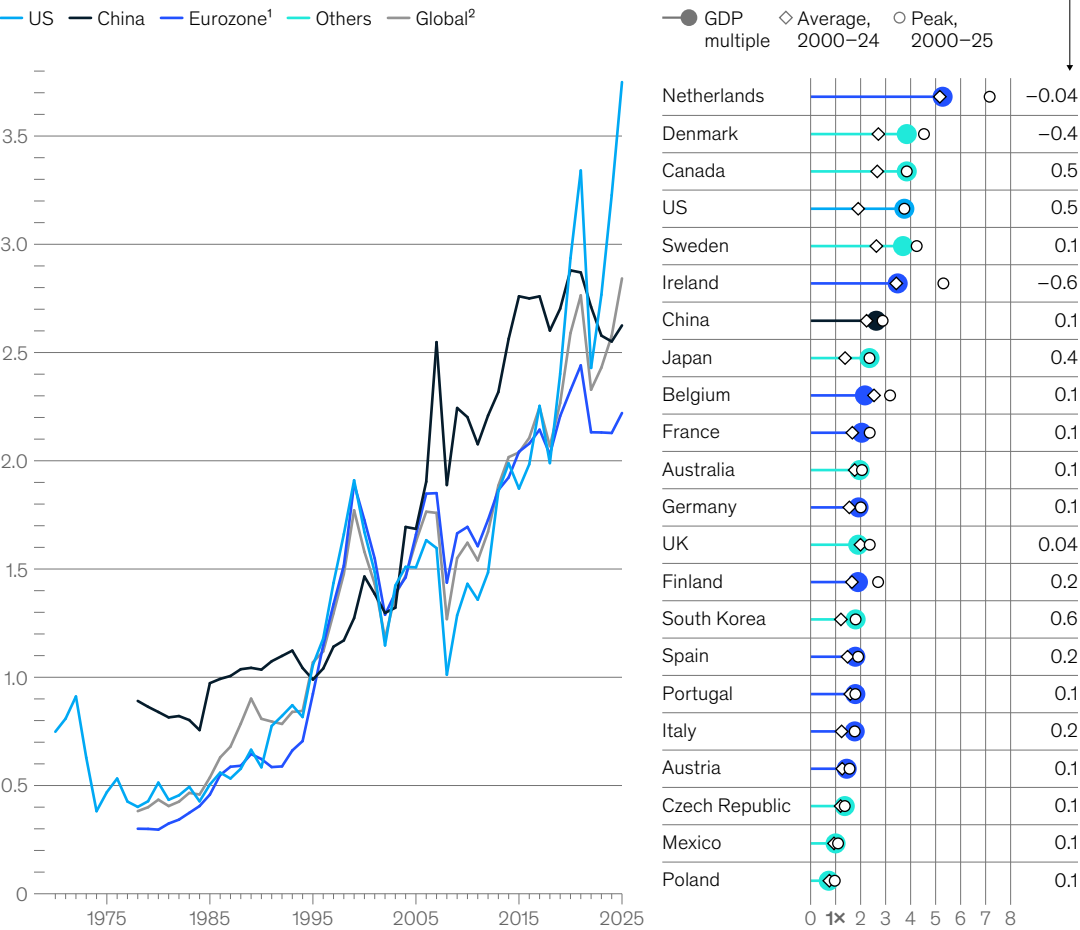
In 2025, countries generally fell into two groups. Some, including the United States, Canada, Japan, and South Korea, reached all-time highs in equity. In the United States, values were nearly double the historical average. Some of this reflected a boom in tech, particularly AI. Looking across the S&P 500, just over 50 percent of the growth in market capitalization from 2021 through 2025 came from the “Magnificent Seven” firms commonly associated with AI.⁷ Another driving force was the expansion in the profit share of GDP, which we turn to later in the chapter.

Others peaked around the time of the pandemic, including most European economies and China, although they saw some growth in 2025.⁸

Exhibit 7

Equities relative to GDP are at all-time highs in a handful of countries and down from pandemic-era peaks in others.

Equity liabilities of all corporations (including unlisted), GDP multiple



¹Average of eurozone countries, weighted by GDP.
²The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

Equity (continued)

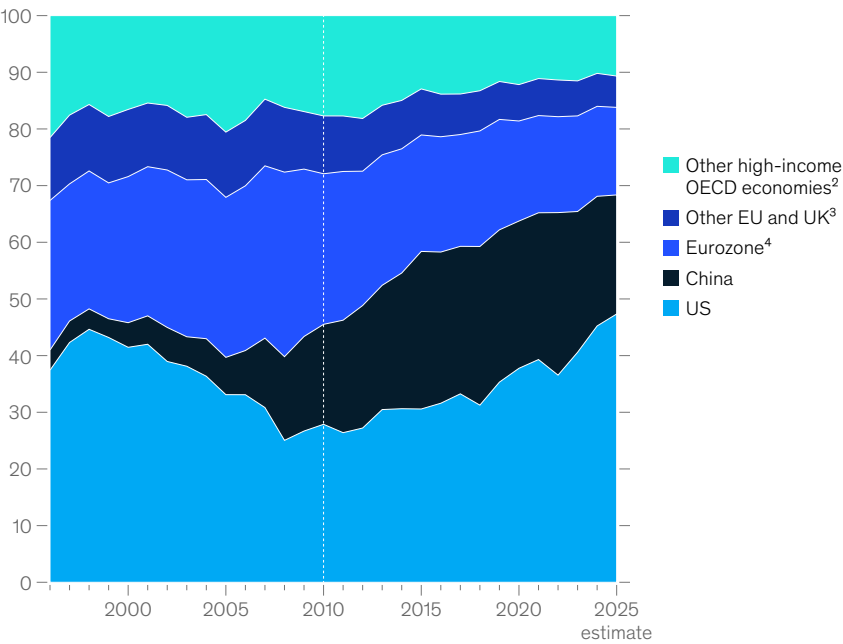
Equity originating from US firms holds particular significance for global wealth. The United States accounts for nearly half of the equity across countries in our global sample. This is much higher than in the past, following rapid equity-price appreciation.

The impact of US equity markets extends beyond American households. More than one-third of US equity liabilities are owed to foreign entities. International investment positions are significantly composed of equity, with the United States on balance owing more to the rest of the world, and many other countries on balance owing more equity originating from abroad, suggesting that many cross-border equity liabilities originate from the United States.

Exhibit 8

The share of equities originating from the United States has grown over the past 15 years, accounting for nearly half today among big economies.

Distribution of corporate equity liabilities, major economies,¹ %



¹Includes unlisted equities.
²Includes Japan, Canada, Australia, and South Korea.
³Select economies representing ~90% of total non-eurozone GDP.
⁴Economies representing ~95% of total eurozone GDP (Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, and Spain).
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Equity (continued)

While the United States is one of several countries with high equity-to-GDP ratios, it stands out for its high equity-to-net-asset ratios. US equity values rose to 2.4 times net assets, while the figure in most other countries hovered around 1.0.

Economic theory suggests that the equity-to-net-asset value, also called “Tobin’s Q,” should be around one in the long term: Equity should converge to net assets, or the reinvestment value, if there is perfect competition.⁹

In the United States, returns on invested capital rose and the corporate profit share of GDP doubled relative to pre-2000 averages. Fundamentally, high US equity valuations depend on corporate earnings continuing to outgrow GDP in the long run.

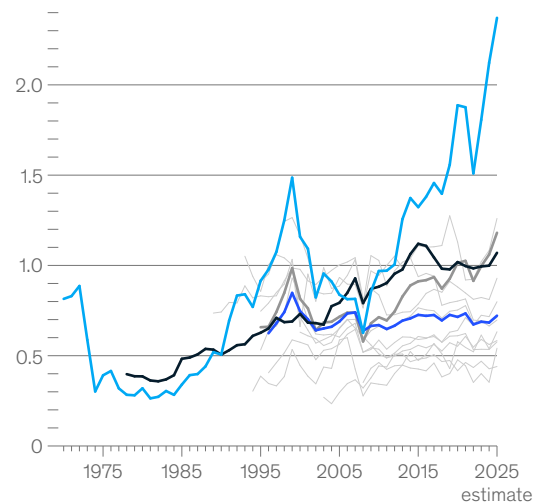
Exhibit 9

Record US profits have pushed equities higher than in other economies relative to GDP and net assets.

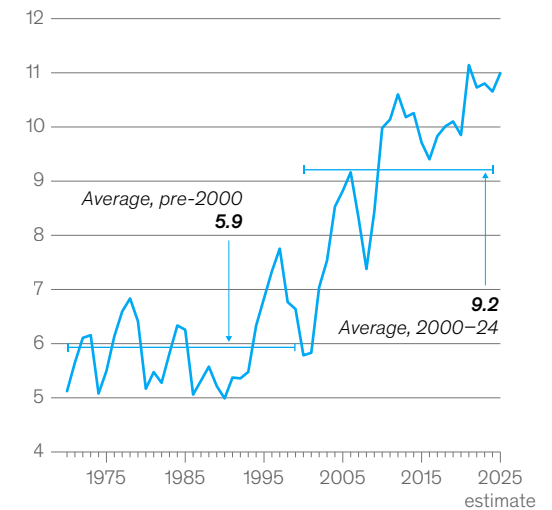
Corporate equity liabilities and profits

— US — China — Eurozone¹ — Global² — Other large economies

Corporate equity liabilities as a multiple of corporate net assets,³ GDP multiple



US corporate profits as a share of GDP,⁴ %



¹Economies representing ~95% of total eurozone GDP.

²The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.

³Calculated as nonfinancial corporate (NFC) equity liabilities ÷ (NFC assets – NFC nonequity liabilities).

⁴Calculated as annual nominal corporate profits ÷ annual nominal GDP values, using corporate profits after tax with inventory valuation adjustment and capital consumption adjustment as reported by the Federal Reserve.

Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Debt

The next-largest component of the balance sheet is debt, representing both loans and bonds. Its dynamics vary substantially by sector and across countries.

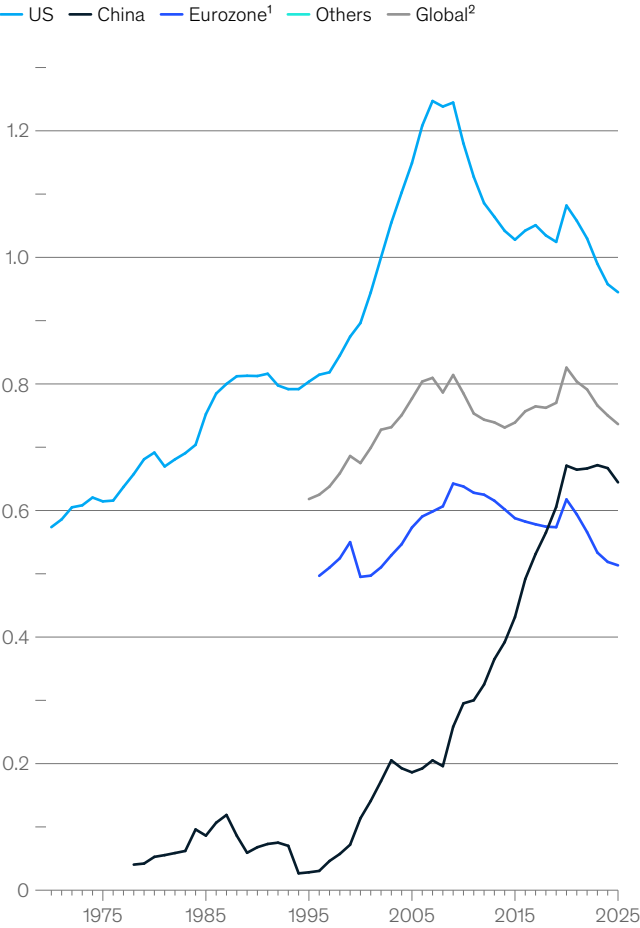
Household debt relative to GDP is trending down in most economies. Many are below their average levels since 2000; Ireland in particular stands out for being more than 40 percentage points of GDP below its average since then. On the high end, household debt in Australia and Canada remains north of 100 percent of GDP, although still below its peak. China's figure is the most elevated compared to its post-2000 average.

Lower debt means healthier balance sheets for households. But higher debt in other sectors could mean an eventual correction that affects household wealth through ownership of financial assets or participation in pension funds holding those assets.

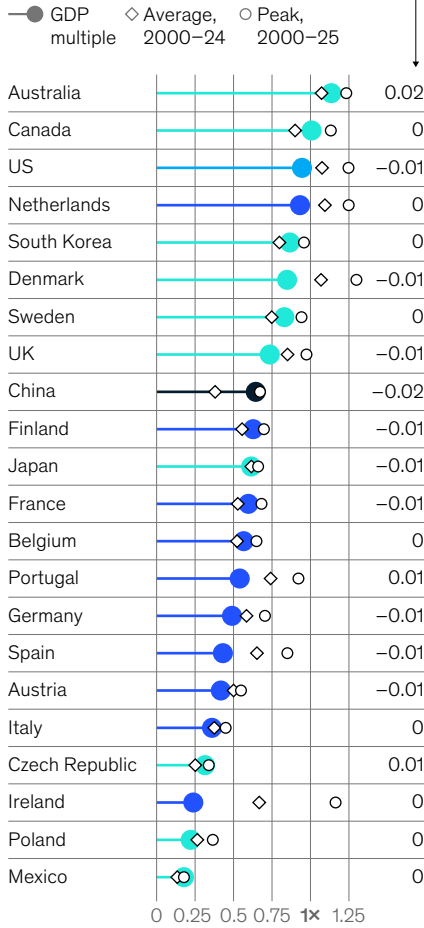
Exhibit 10

Household debt is back to early-2000s levels in the United States and Europe.

Household debt liabilities, GDP multiple



Select economies, 2025 estimate



¹Average of eurozone countries, weighted by GDP.
²Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
 Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

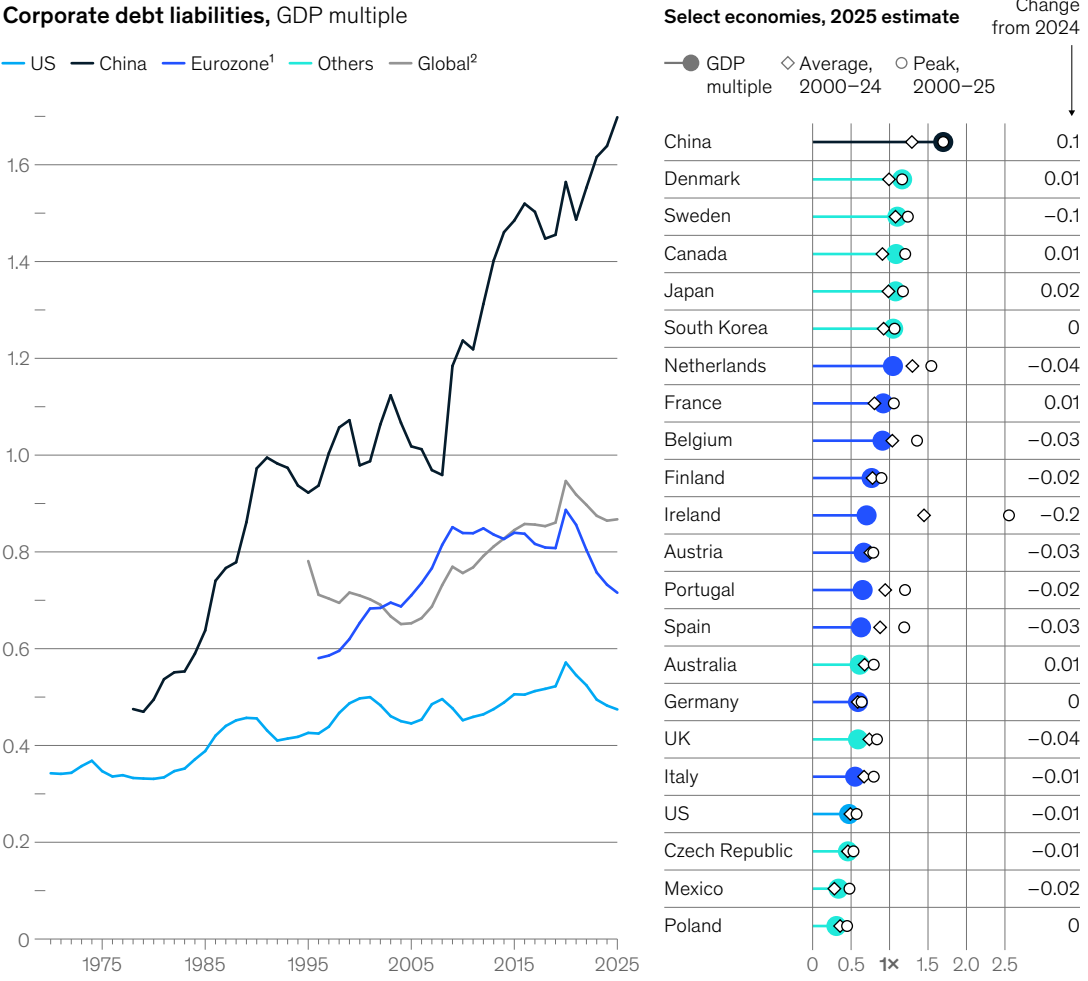
Debt (continued)

Corporate debt levels are below or in line with 25-year averages in much of the world. In 2025, Ireland stood out for a reduction in corporate debt relative to GDP of 21 percentage points.

China is a major exception. Its corporate debt is double the global average and grew by six percentage points of GDP in 2025. This comes amid a growing rate of loss-making firms and deflating producer prices.¹⁰ China's corporate debt is also highest relative to corporate real assets, with a ratio of about 80 percent. The typical range across countries is 40 to 50 percent.

Exhibit 11

Corporate debt is trending down in Europe and growing in China, where it is now almost double the global average.



¹Average of eurozone countries, weighted by GDP.
²Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Debt (continued)

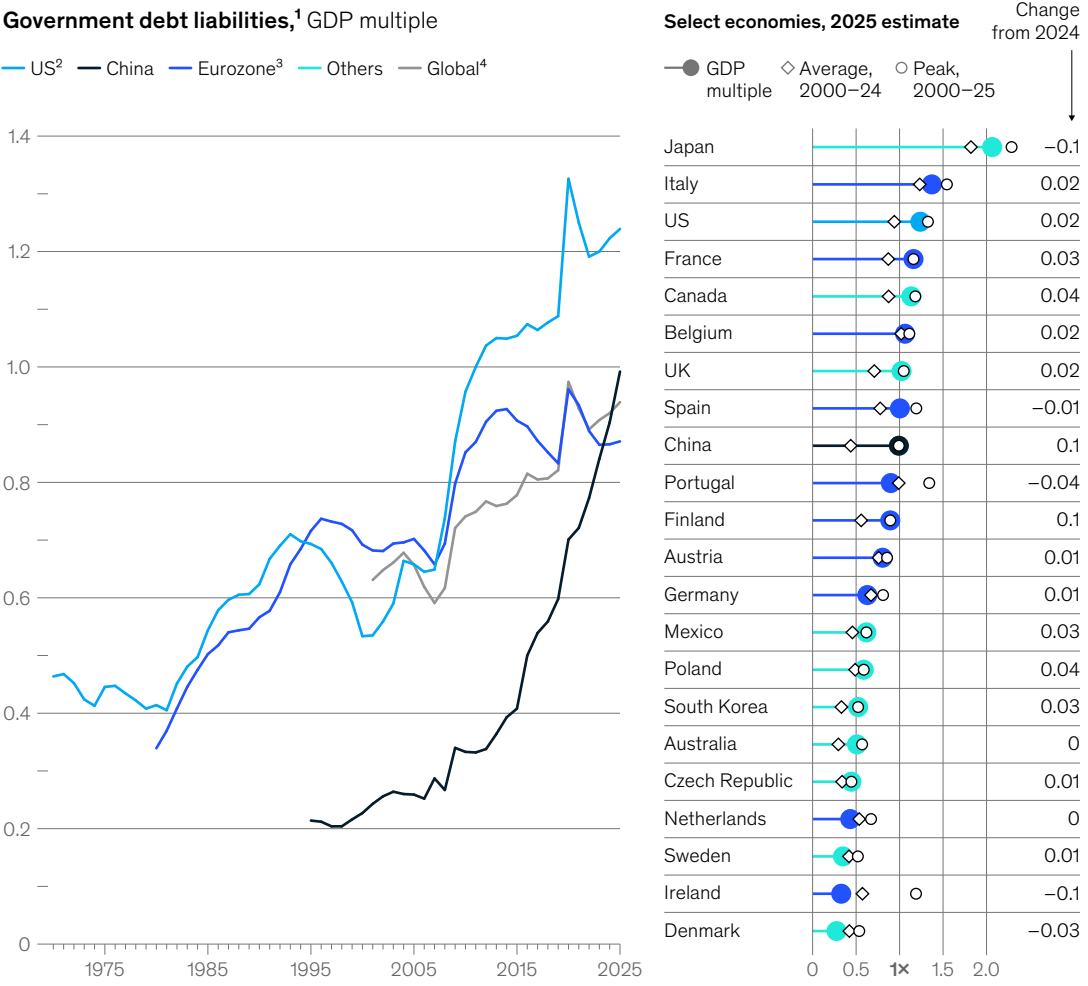
Government debt, by contrast, remains a pressing challenge for many countries.

As of 2025, it was over 100 percent of GDP in Japan, Italy, the United States, France, Canada, Belgium, the United Kingdom, and Spain. China had the fastest growth in government debt-to-GDP ratios, by nine percentage points, continuing a sharp uptick in recent years.¹¹ While Japan's level remained the highest relative to GDP, it has seen the greatest drop, eight percentage points, amid a significant increase in inflation.

As interest rates remain elevated across advanced economies, reaching or exceeding expected economic growth rates, government debt sustainability is increasingly in the spotlight. Economies may not simply be able to grow their way out of debt (see sidebar "When does government debt become unsustainable?").

Exhibit 12

General government debt remains greater than 100 percent of GDP in many advanced economies, including the United States.



¹While most balance sheet data are reported by national statistics offices and based in market values, we have chosen to use face values reported by the IMF, given that this figure is more relevant for discussions of public debt sustainability.

²Data are extended backward from 2001 to 1970 using the general government debt data series from IMF.

³Aggregate estimates from IMF, referring to gross general government debt. Data are extended backward from 1995 to 1980 using general government debt data from IMF for Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Portugal, and Spain.

⁴Aggregate estimates from IMF, referring to gross general government debt.

Source: IMF; McKinsey Global Institute analysis

When could government debt become unsustainable?

There is no universally agreed-upon threshold, or band, at which government debt becomes unsustainable, especially for high-income economies issuing debt in their own currencies.

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).¹ 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.² 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.³

Given the new environment with notable increases in interest rates in the United States and Europe, and decreases in growth projections in China, the gap between g and r is much closer to zero than it was in the past decade and a half. Some projections even suggest that in the United States, the signs actually flipped in 2025, with interest rates exceeding expected growth rates.⁴

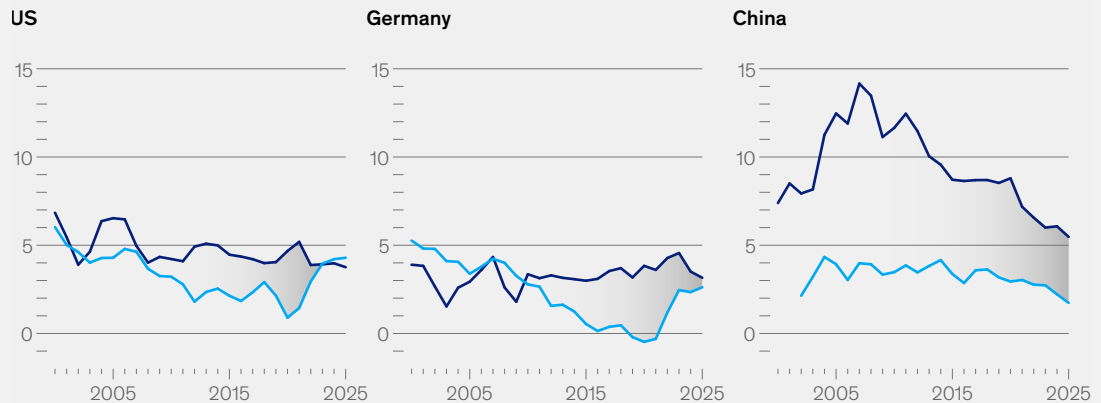
There are multiple reasons to believe that interest rates are structurally higher today than in the prepandemic period. These include higher planned investments, lower planned saving, and higher risk (for example, from shifting geopolitics and rising public debt).⁵ As a result, fiscal budgets could come under pressure and the debt-to-GDP ratio is poised to further increase, unless major steps are taken to reduce government borrowing.

Exhibit

Long-term interest rates exceeded growth expectations in the United States, while the gap narrowed in Germany.

Nominal interest rates and growth projections, %

— 10-year government bond yield — 5-year IMF growth projection¹



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

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- ¹ See Olivier Blanchard, *Fiscal Policy Under Low Interest Rates*, MIT Press, 2023, and 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.
- ² 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.
- ³ The 2010s were also seen as a period of secular stagnation. See for example Lukasz Rachel and Lawrence H. Summers, "On Secular Stagnation in the Industrialized World," *Brookings Papers on Economic Activity*, 2019.
- ⁴ Based on data from the International Monetary Fund, Oxford Economics, and the Federal Reserve.
- ⁵ These have been discussed at length in macroeconomics academic research. See, for example, Gianluca Benigno et al., "Quo vadis, r^* ? The natural rate of interest after the pandemic," Bank for International Settlements, 2024.

Currency and deposits

Monetary aggregates, shown here as currency and deposits, are another balance sheet signal of economic health. They are assets for households, governments, and nonfinancial corporations, and liabilities for financial corporations (including central banks).

Currency and deposits expand as a result of loans provided by depository banks or via central bank creation of base money, which includes programs such as quantitative easing.¹² Quantitative tightening, or central bank action to reduce its balance sheet size, thus dampens the growth of currency and deposits.

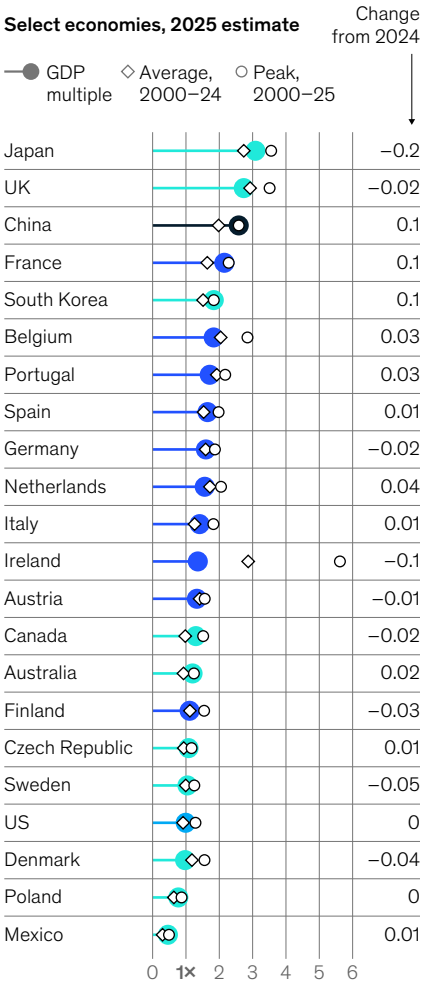
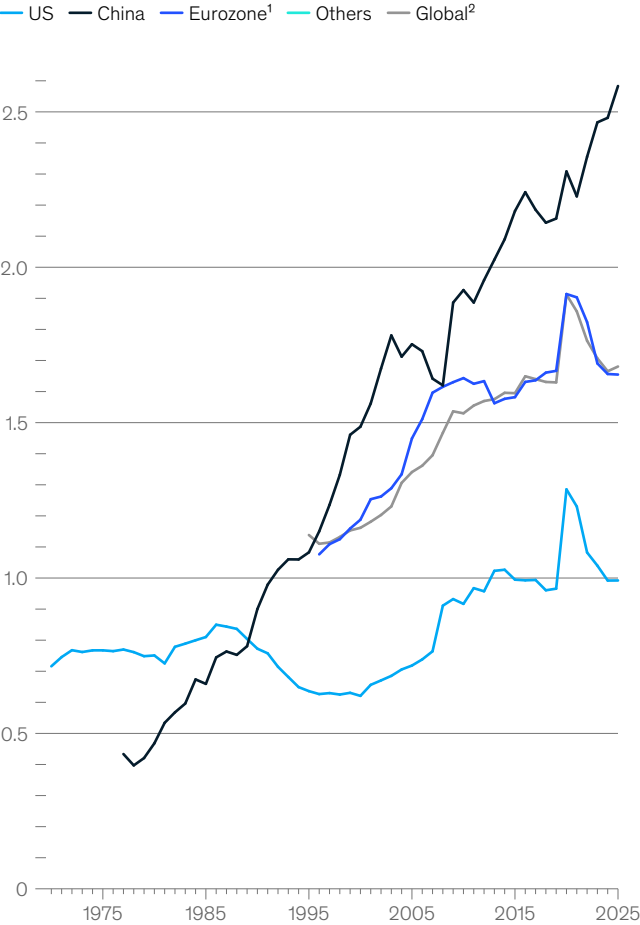
In recent years, inflation and quantitative tightening have brought down currency and deposits relative to GDP from pandemic-era peaks in the United States, most European economies, and Japan. Still, they remain elevated compared to levels before the global financial crisis.

As of 2025, Japan, the United Kingdom, China, and France have currency and deposit levels more than double GDP. China saw the most significant growth, ten percentage points of GDP, over the past year. This is concurrent with high lending by Chinese banks, particularly to corporations.

Exhibit 13

Money supply corrected from pandemic highs in most major economies but grew in China.

Financial corporations' currency and deposit liabilities, GDP multiple



¹Average of eurozone countries, weighted by GDP.
²Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

Productive assets

Another component of balance sheet health is productive assets, a smaller set of real assets encompassing infrastructure, machinery and equipment, and intellectual property.¹³ These lay the foundation for future output and are typically held on balance sheets of nonfinancial corporations and governments.

These assets tend to move closely in tandem with GDP, with the causation going both ways: Higher investment drives productivity and growth; and growth gives firms (and governments) the financial means and revenue opportunities to invest. There can be reasons for them to move out of sync, for example a sudden industrial buildup that results in faster productivity growth. One recent example is AI data centers and related infrastructure. That said, deviations often signal under- or overinvestment.

As of 2025, Japan, China, and South Korea continued to top the list in terms of productive capital-to-output ratios, due both to a high share of capital-intensive production and overcapacity. The United Kingdom, Canada, and Poland have the lowest stocks, although Poland grew the most of any country in our sample.

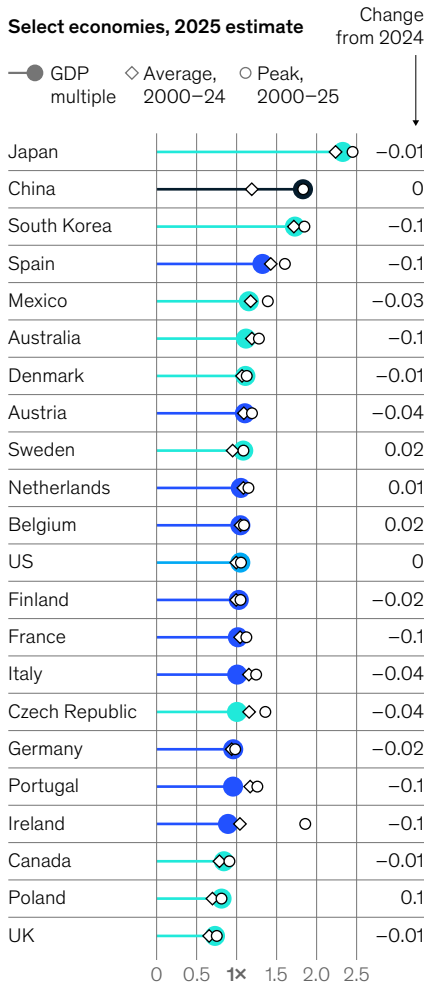
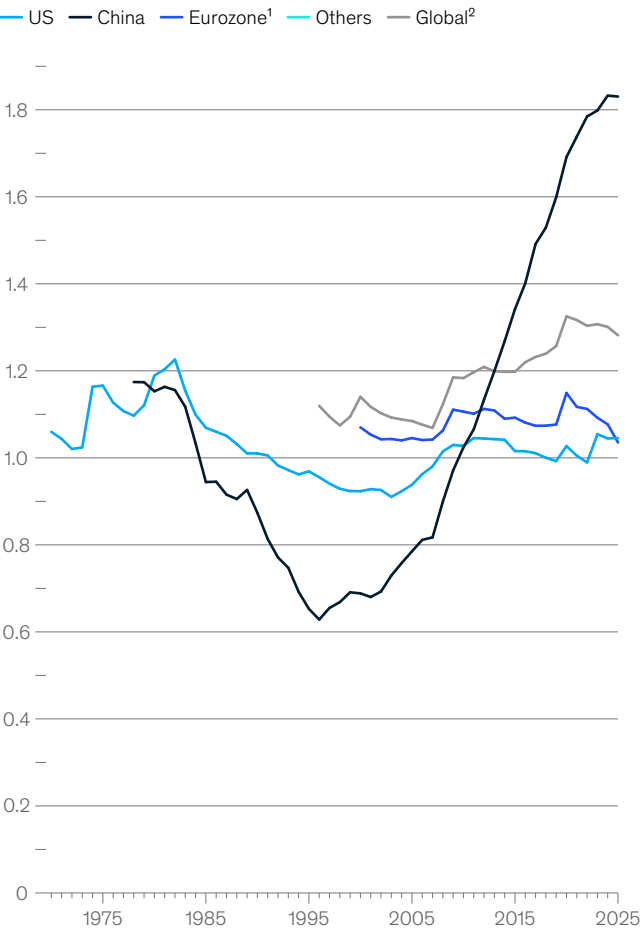
Given the overall stability of productive asset stocks relative to GDP, it is not always easy to get a sense of the nearer-term direction of flows, or changes in stocks.¹⁴ Looking at these directly, 2025 net investment rates exceeded long-term averages in multiple countries, including Poland, Sweden, the United States, Italy, and Spain.

A range of countries, notably China, South Korea, and Ireland, experienced a sharp drop compared to average rates. Germany, Ireland, and Australia saw negative net investment, meaning capital expenditures were below replacement requirements, asset values declined, or both.

Exhibit 14

Japan, China, and South Korea continue to have the highest levels of productive assets.

Productive assets across all sectors (equipment and machinery, intellectual property, and infrastructure), GDP multiple



¹Average of eurozone countries, weighted by GDP.
²Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
 Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

Cross-border positions

A final component of balance sheet health is cross-border positions. Within a given financial asset class, an economy may have a positive or negative balance, signaling net inflows or outflows over time. When they accumulate for an extended period accrue in positive or negative directions, they may signal risks.¹⁵

In macroeconomic accounting, net inflows or outflows of financial assets equal domestic savings minus domestic investment. These flows can significantly influence national wealth. Domestic savings greater than investment means a net lending position to the rest of the world. Investment that exceeds savings means a net borrowing position.¹⁶

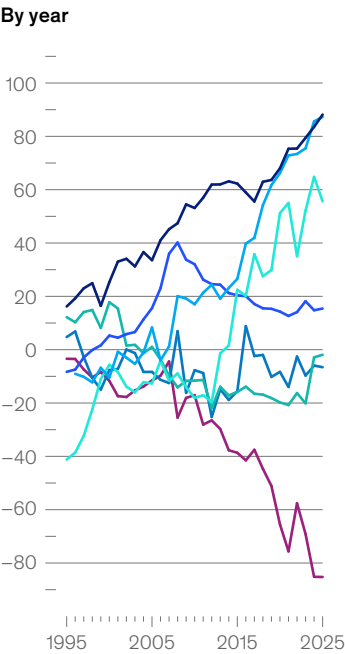
International positions are shaped by these domestic imbalances as well as by differences in asset valuations. These imbalances have increasingly come under scrutiny, meaning net lending and borrowing as a driver of wealth may face political limits as occurred, for example, during the eurozone debt crisis.

Net flows of financial assets accumulate to international investment positions, which have grown substantially since 2010. In 2025, they reached new heights in Japan and Germany, both nearly 90 percent of GDP in a net lending position, and in the United States, nearly 90 percent of GDP in a net borrowing position. Half of the US negative position is in equity, as US equities have grown in value more than those of other economies. Major European economies, Japan, and Canada have positive balances in equity, meaning on net, they own more equity issued abroad.

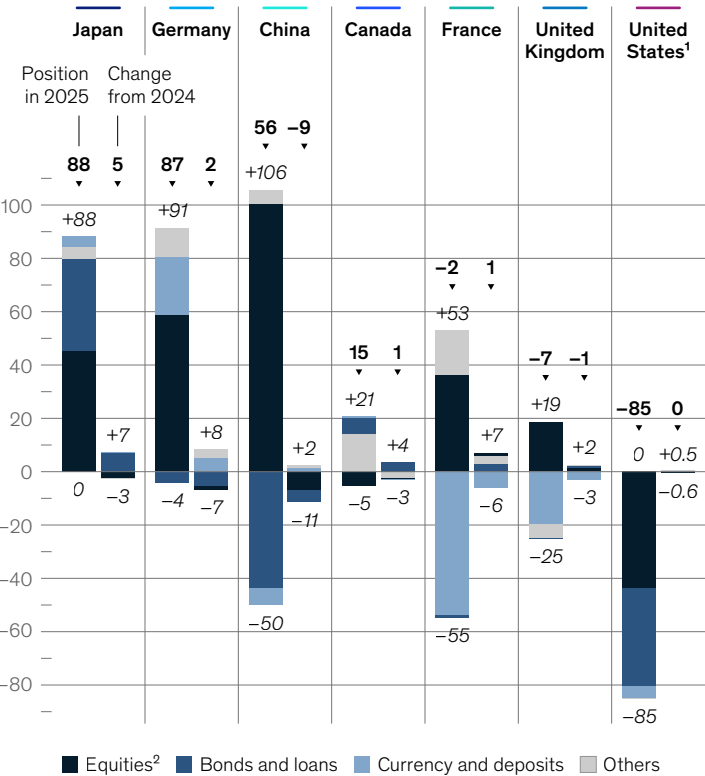
Exhibit 15

Cross-border financial imbalances mostly widened.

7 economies' net international investment position as a share of GDP, %



By balance sheet item, 2025 (estimate)



Note: Figures may not sum to 100%, because of rounding.
¹Computed based on US financial accounts data for "rest of the world" sector, which closely matches IMF data for US international net investment position.
²Includes investment fund shares.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Has wealth growth been 'healthy?'

Global wealth growth accelerated over past year. Over half of new wealth was equity—and “on paper.”

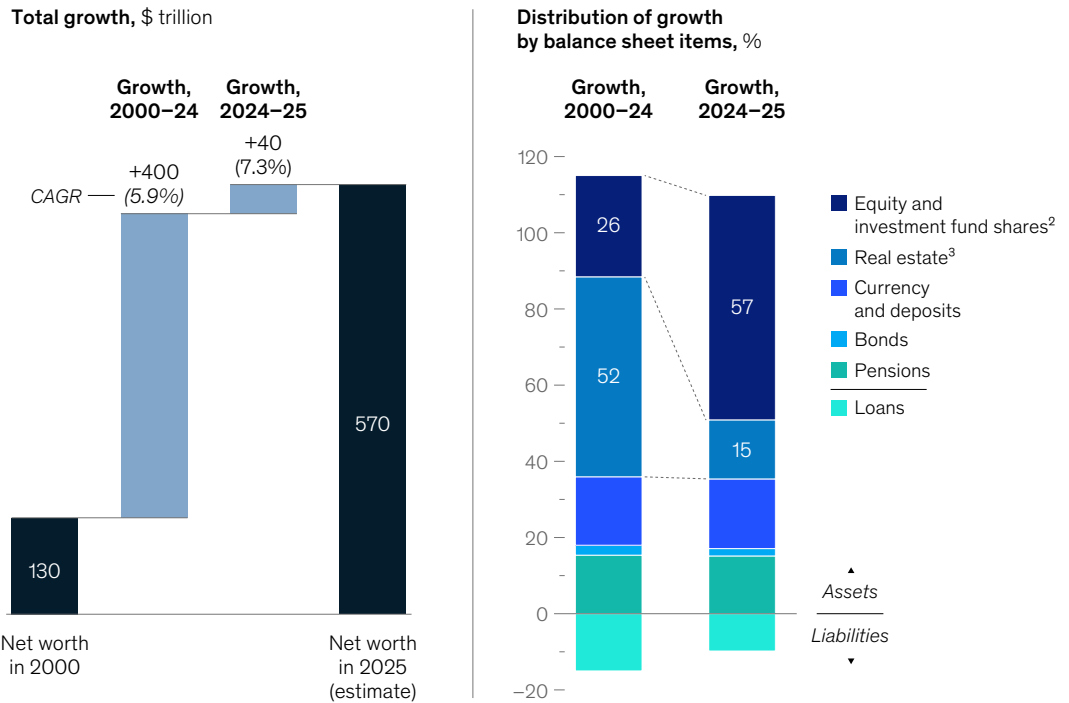
In 2025, household wealth growth accelerated to 7.3 percent from the 5.9 percent annual average since 2000. In this chapter, we explore the drivers of household wealth growth and the extent to which they have been what we consider healthy.

From an asset class standpoint, there was a stark shift in the drivers of wealth last year. Mirroring balance sheet trends, 57 percent of new household wealth globally was based in equity, and only 15 percent in real estate. This was a marked departure from the average composition of wealth drivers since 2000, in which real estate produced more than half of wealth growth.

Exhibit 16

Equities played an outsize role in household wealth growth, mirroring balance sheet trends.

Growth in global household net worth, 2000–25¹



¹Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
²Includes other financial assets including accounts receivable and derivatives, a small portion of total wealth (1% as of 2025).
³Includes other real assets including productive assets, inventories and valuables, and mineral and energy reserves, a small portion of household wealth (2% as of 2025).
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Real estate accounts for about half of global household wealth. About a quarter is held in equity and investment funds, 20 percent in currency and deposits, and 20 percent in bonds and pensions. (Loans were equal to 15 percent, in the negative direction.)

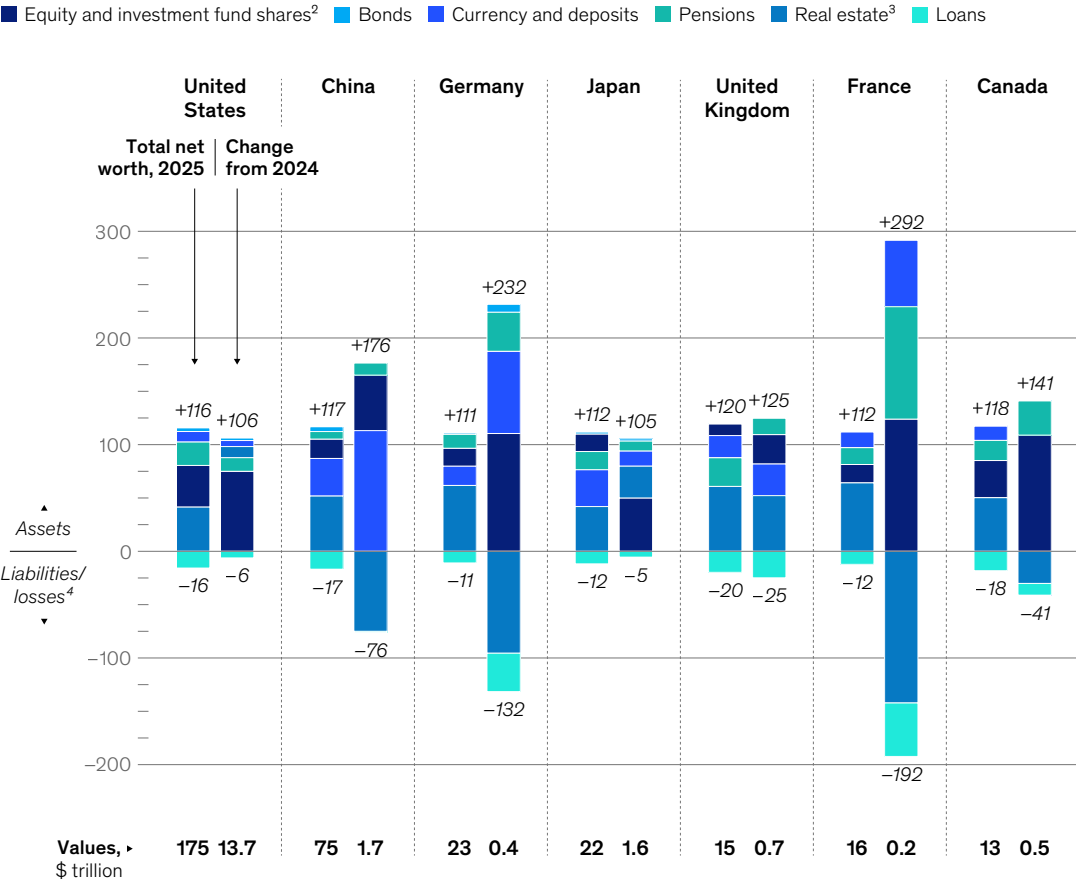
Household wealth composition in major economies varies, in part reflecting different retirement systems. Notably, in the United States and Canada, equity plays a large role, making up more than one-third of household wealth. In China and Japan, currency and deposits make up more than one-third.

In 2025, equity was the single largest catalyst for wealth creation in nearly all major economies. In many, including China, Germany, France, Italy, and Canada, real estate declined.

Exhibit 17

Every major economy saw growth in equity assets, which in some cases offset drops in real estate.

Distribution of 7 economies' household net worth by balance sheet item, 2025 estimate,¹ %



¹Ordered left to right by economy size.

²Includes other financial assets.

³Includes other real assets.

⁴Households' only liability is loans, while losses apply to real estate.

Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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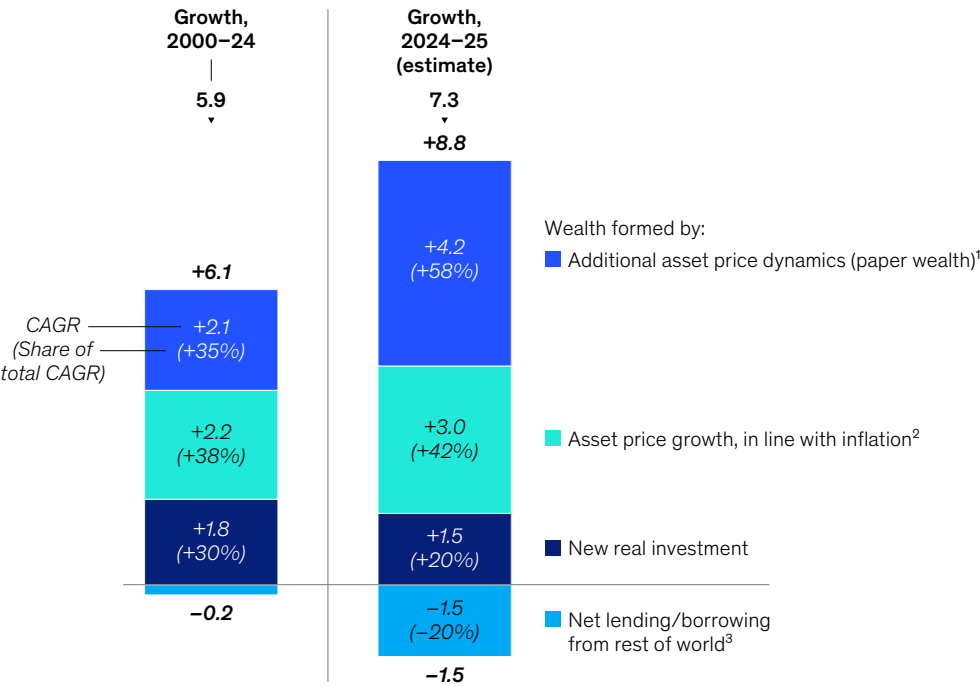
In 2025, global wealth growth was driven to a greater extent by paper wealth, or nominal asset value growth decoupled from the real economy.

Only 20 percent of household wealth growth was based on net new investment (real assets including machinery and equipment, homes and buildings, infrastructure, and intellectual property, less depreciation), compared to 30 percent on average from 2000 to 2024. Nearly 60 percent came from asset price growth above and beyond general inflation and negative net worth positions from other sectors.¹⁷ This was a marked increase over the average from 2000 to 2024, when paper gains drove one-third of global wealth growth.

Exhibit 18

Most global wealth growth was ‘on paper.’

Decomposition of growth in global household net worth, CAGR, %



¹Portion 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 owned by the household sector.
²Analysis uses the consumer price index.
³At a true global level, this will equal 0. The figure here represents the total our sample set of countries has lent to or borrowed from the rest of the world (beyond the sample).
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Dynamics of investment and asset-price-driven wealth growth varied substantially across countries.

China saw the largest drop in wealth growth as net investment rates declined, inflation hovered around zero, and asset values, particularly in property, continued their multiyear decline.

Japan saw the largest upswing, driven mostly by valuation gains, a significant pivot following decades of near-zero inflation.

The United States also saw an increase, due largely to valuation gains.

France and Germany both experienced declines in net new investment and valuations—and, when removing positive foreign exchange effects, wealth losses.

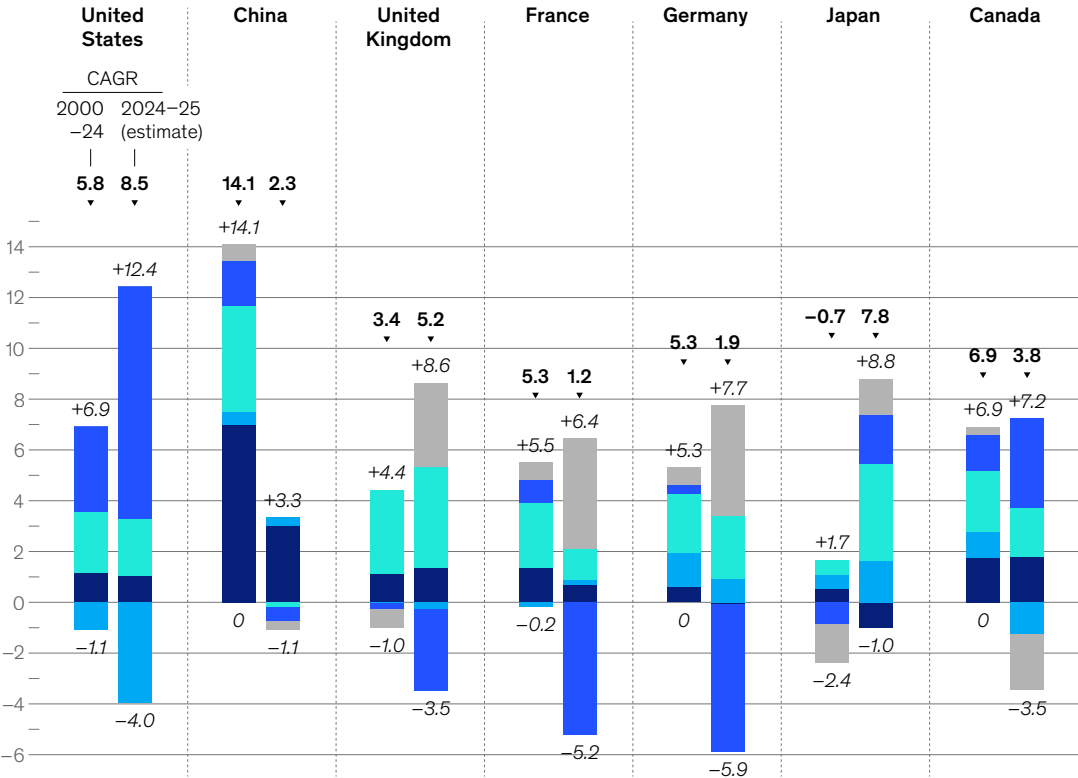
The United Kingdom and Canada saw slight declines in wealth growth in local currency terms. In Canada, domestic equity markets appear to have lifted paper wealth while also slightly rebalancing the positive international financial position.

Exhibit 19

Wealth drivers varied substantially; the United States saw a surge in ‘paper wealth,’ while others had a notable drop.

Decomposition of 7 economies’ growth in household net worth, CAGR in US \$, %

■ New investment ■ Net lending/borrowing ■ Asset price growth in line with general inflation¹ ■ Additional asset price dynamics² ■ Impact from currency exchange rates³



Note: Figures may not sum to 100%, because of rounding.
¹Analysis uses the consumer price index.
²Portion 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 owned by the household sector.
³Household net worth CAGR in US dollars differs from that in local currency due to exchange rate effects.
Source: CEIC; China National Bureau of Statistics; People’s Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis



What this means for executives

A balance sheet out of kilter with the economy may go one of four ways, with implications for growth, inflation, and interest rates. Watch for the swing factors that could move economies from one trajectory to another.

A balance sheet that is out of kilter with the economy—in other words, with high paper wealth fueled by debt and liquidity levels significantly above historical norms—can unwind via higher productivity, higher inflation, or asset price corrections. Balance sheets may also remain large, typically under secular-stagnation-like conditions, effectively kicking the can down the road for potential correction.

Each of these four scenarios shapes the long-term economic outlook. Only productivity acceleration delivers real economic growth justifying valuations, thus protecting wealth. The others sacrifice wealth, growth, or both. Sustained inflation reduces real values of wealth, secular stagnation sees low growth, and a balance sheet reset signals a loss of wealth and growth. Importantly for business leaders, two scenarios would likely mean structurally higher interest rates: Productivity acceleration would entail greater demand for capital amid higher business investment, while sustained inflation would likely involve central banks tightening policy rates and, ultimately, higher long-term yields.

All scenarios are possible for all major economies. However, they appear to be on different pathways, with different swing factors that could move them from one trajectory to another.

For executives, this means both preparing for an unusually broad array of economic pathways and carefully watching the swing factors, which rise above the noise of daily indicators (see sidebar “Business planning for all scenarios”). Leaders across sectors and industries could also explore ways to encourage the optimal outcome, the productivity acceleration scenario.

Exhibit 20

Elevated 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
<i>Historical analogy</i>	US during late 1990s information and communications technology boom	US post–oil shock, 1970s	US and Europe between global financial crisis and COVID-19 pandemic	Japan post–real estate bubble, 1990s
<i>What would happen</i>	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
<i>What it means for wealth</i>	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
<i>What it means for growth</i>	Rapid real growth above prepandemic growth rates in the US 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 US and Europe and 2% in China	Deep recession followed by stagnant growth and persistent low confidence; “lost decade”
<i>What it means for inflation and interest rates</i>	Inflation moderates closer to US and European targets; interest rates remain higher than prepandemic rates given high investment	Above-target inflation in the US and Europe; interest rates higher than prepandemic 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

McKinsey & Company

Major economies show significant divergence in trends across macro drivers of productivity, inflation, and interest rates, along with fundamental balance sheet components including real estate, equity, and debt.

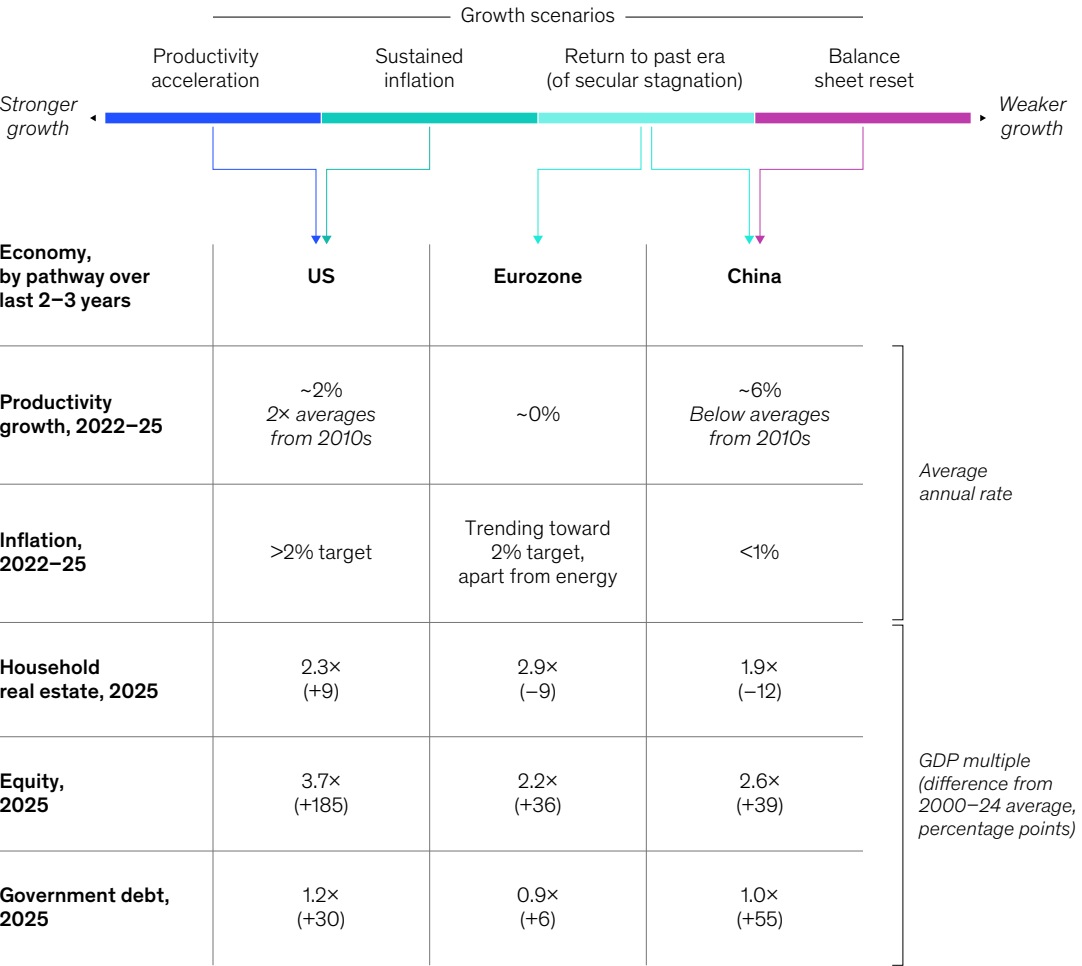
The United States has seen a structural uptick in both productivity growth and interest rates relative to the prepandemic period. Productive investment, particularly driven by the tech sector, has recently grown. High equity values also signal market confidence, although they may pose some downside risks. Meanwhile, inflation remains above the Federal Reserve's 2 percent target and government debt remains near all-time highs, adding further inflation risk.

The eurozone has experienced a return to secular-stagnation-like conditions, akin to the prepandemic period, amid flat productivity and higher saving. Europe's balance sheets overall appear more in balance compared to the US balance sheet (with a few exceptions, such as Italy's government debt). Productivity growth rates, however, are down across the region's three largest economies (Germany, France, and Italy). Until recently, inflation was mostly trending toward the European Central Bank's 2 percent target, although Europe is more exposed to energy price changes.¹⁸ Personal savings rates remain high amid a drop in aggregate demand and per capita household wealth has declined in PPP terms in Germany and France.¹⁹ Productive investment remains below prepandemic and global averages.

China continues to work through a partial balance sheet reset in the face of a continued decline in real estate, with questions about future growth drivers amid low household demand and a boom in corporate investment. Productivity growth has receded in recent years, although it remains above the rate in advanced economies.²⁰ Inflation and, in tandem, nominal interest rates, have dropped, and concerns have shifted to dealing with deflation risks.²¹ At a macro level, lower household property investment has been offset by higher corporate investment, especially among state-owned enterprises, and by government spending.²² This has coincided with a substantial rise in corporate and government debt, both reaching all-time highs.

Exhibit 21

The global economy faces a widening disparity—and high uncertainty.



Source: Bureau of Labor Statistics; The Conference Board; Oxford Economics; CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; IMF; McKinsey Global Institute analysis

McKinsey & Company

While the United States is the only major economy showing signs of productivity acceleration, it is not guaranteed long term, and other economies have a potential path to it. Focusing on “swing factors” could help filter signal from noise in the daily flow of indicators, market fluctuations, and political headlines. These factors differ by economy.

In the United States, swing factors that could knock the economy out of productivity acceleration include the “fiscal tightrope” and corporate earnings.

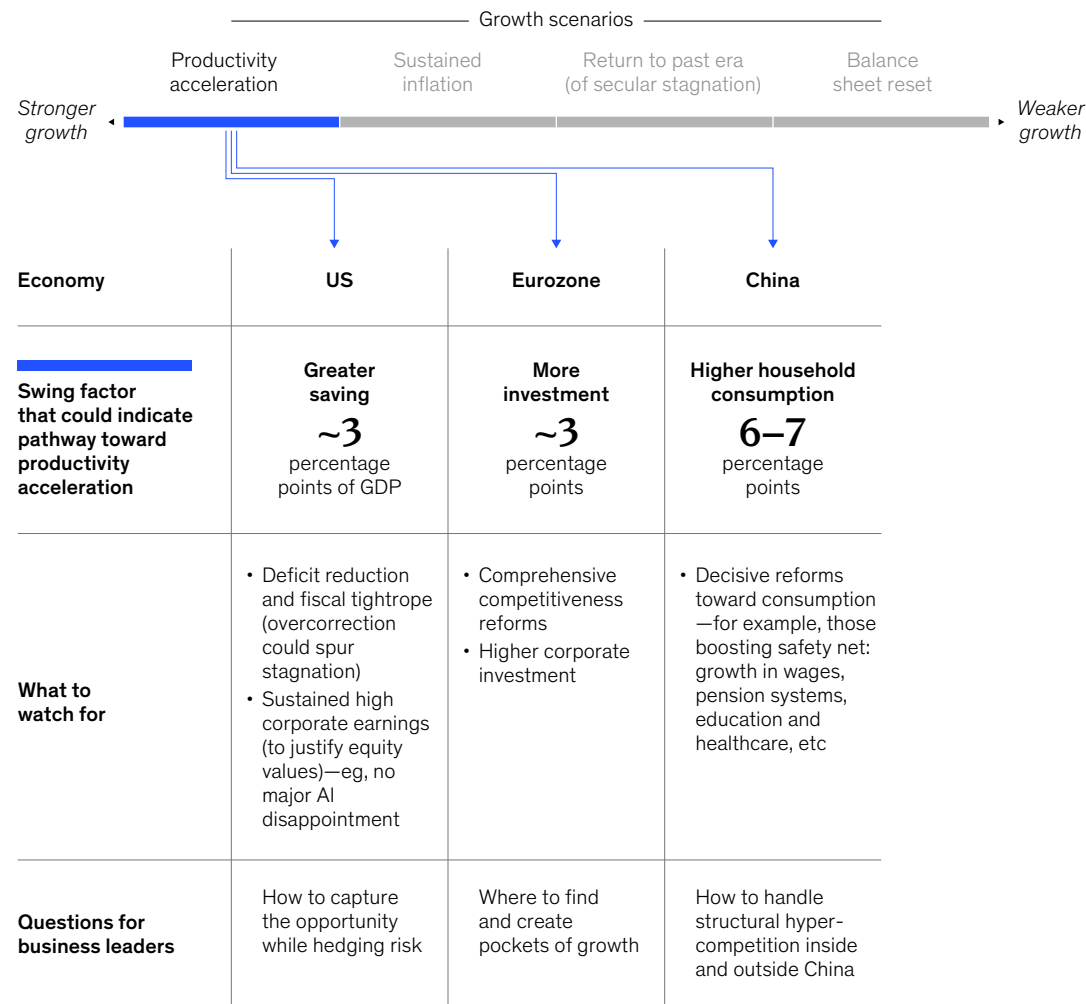
- Government debt stands at about 120 percent of GDP. Combined with higher interest rates, this means more public spending will need to be directed toward debt repayment. Public spending could come under pressure, especially from bond investors, in the form of higher market interest rates. These translate into higher business costs of capital. If fiscal policy tightens too little, a public debt crisis or sustained inflation becomes more likely.²³ Too much, and secular stagnation is a potential outcome.²⁴ To bring budgets back into balance, greater fiscal saving (or lower borrowing) on the order of three percentage points of GDP would be needed.²⁵
- On the corporate-earnings side, an equity or wealth reset could be triggered by a large structural shift in the longer-term outlook—for example, from AI disappointment or large geopolitical disruption. Equities are at all-time highs, at 3.7 times GDP and 2.4 times net assets, and constitute nearly 40 percent of household wealth.²⁶ A price correction could result in a sharp pullback in demand, ushering in an extended period of low growth. It is thus imperative that corporate earnings deliver on high expectations.

In the eurozone, the most critical swing factor for productivity acceleration would be an uptick in productive investment. Europe has a \$700 billion corporate-investment gap with the United States (equivalent to about three percentage points of GDP).²⁷ Promoting investment would require competitiveness reforms, which would foster greater productivity growth.²⁸ Without greater investment, secular stagnation trends could continue, with the added risk of energy prices driving higher overall inflation.

In China, higher domestic demand could help unlock a productivity acceleration pathway. China has supply-side strengths. But debt-financed government and corporate spending cannot last forever, and there is a limit to how far the contribution of net exports to growth can go, in part reflecting limits to the ability of trading partners to absorb China’s exports. A pivot to domestic consumption may be the only way to sustainably grow and escape long-term stagnation. Compensating for declining household property investment would require domestic demand to rise by more than six percentage points of GDP.²⁹ Reforms to raise consumption, such as improving the safety net of health care and pension systems, could also encourage private firm investment.³⁰

Focusing on ‘swing factors’ could help filter signal from noise in the daily flow of indicators, market fluctuations, and political headlines.

Exhibit 22
Major swing factors can move an economy from one scenario to another.



Source: McKinsey Global Institute analysis

McKinsey & Company

Business planning for all scenarios

Each of the four scenarios has strategic and operational considerations for business leaders and investors.

Productivity acceleration

Only this scenario, which resembles the late-1990s United States, combines strong income and wealth growth with balance sheet health. Optimistic business leaders would anticipate this “Goldilocks” result.

To benefit from growth opportunities, business investment in technology, new capacity, and automation could help capture market share. Companies driving productivity—for example, through new technologies—may capture significant value. Labor and materials may become scarcer; businesses could therefore benefit from considering how to secure access to both. As interest rates rise, firms could benefit from securing long-term financing early.

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.

Sustained inflation

In this scenario, inflation remains elevated above central bank target rates, potentially lowering the burden of debt but also the real value of wealth. The lack of price stability would pose challenges. But it would likely be accompanied by solid income growth, positive (albeit not impressive) growth in wealth, and a more sustainable balance sheet.

Many firms encountered these conditions after the pandemic. Businesses could look to pricing, procurement, and productivity as responses to higher input prices and wages. They could also alter the business-portfolio mix to benefit from healthy demand growth, particularly in investment goods. Scale will matter more to protect margins. Locking in favorable conditions—from long-dated maturities in financing to long-term contracts for labor and suppliers—may help hedge against higher costs.

Investors seeking to protect assets and wealth from inflationary erosion could also find an environment of higher yields. Financial institutions would likely need to rethink business models hardwired to ever-growing balance sheets. Banks, for instance, could seek to complement net interest income with more fee-based business models.

Secular stagnation

For many stakeholders, from asset managers to real estate investors, this may seem like an attractive prospect because wealth would continue to grow. But in a secular stagnation, rising wealth is mostly on paper and real economic output is sluggish. Thus, the risk of financial stress and future corrections would continue to grow.

For leaders in the United States and Europe, this scenario would likely feel like the prepandemic decade. Leverage would remain a potent tool for raising returns.

By contrast, in China, where the prepandemic decade was one of growth, secular stagnation would involve a marked shift. Regardless of geography, businesses would need to seek pockets of growth. For investors, asset values would

most likely face headwinds from the further declines in real estate and hits to equity, amid stagnating corporate profits.

Balance sheet reset

This scenario affects both wealth and growth. If it unfolds, the world could find itself in a “lost decade” of growth, as Japan did in the 1990s and into the 2000s following the bursting of its real estate and equity bubbles.

This scenario would reward businesses with built-in resilience, for example through a flexible cost base and lower debt exposure. Businesses could also consider how they can ensure cost-base flexibility in case of a sharp economic slowdown. They may also reduce debt and limit exposure to market prices in equity and real estate. Fortress balance sheets could help weather the storm and enable opportunistic responses when distressed M&A opportunities emerge.

In a similar vein, investors could seek protection from asset corrections and defaults; holding cash could be a good option in this scenario. Financial institutions might live through a situation not unlike the years after the global financial crisis. There could be substantial opportunities for consolidation and M&A, including situations of distress, making preparation essential.



Technical appendix

This appendix summarizes the sources and estimation methods used to construct national balance sheets. The overall methodology is unchanged from prior installments of the McKinsey Global Institute *Global balance sheet* series, with updated data releases incorporated where available.³¹

United States

Most balance sheet items are reported directly by the Federal Reserve's Financial Accounts of the United States. OECD data are used to allocate structures between dwellings, non-dwelling buildings, and infrastructure categories where greater asset detail is required.

Financial assets and liabilities are consolidated within sectors to eliminate offsetting intrasector positions where appropriate. The international investment position estimate is based on Rest of the World data from the Financial Accounts of the United States, rather than on the sum of the domestic sectors' position.³²

OECD economies

For all OECD economies other than the United States, balance sheet data are sourced from national statistical agencies through the OECD. Financial asset and liability data are supplemented with national central bank financial accounts for the latest available year.

Where data gaps exist, estimates are constructed using consistent cross-country methodologies. These include:

- Backcasting missing historical observations using related asset series and growth rates.
- Estimating land values for non-household sectors using observed land-to-structure relationships for household real estate holdings.
- Estimating inventories where not reported using benchmark ratios observed across comparable high-income economies.
- Adjusting for methodological breaks in national statistical series where necessary to maintain consistency over time.

China

China's balance sheet data through 2022 are sourced primarily from the Chinese Academy of Social Sciences via CEIC. Financial assets and liabilities broadly follow international balance sheet classifications, while real assets are reported at a more aggregated level.

To align Chinese data with the cross-country framework used in this report, aggregate real assets are allocated across the following categories:

- Real estate (land and structures)
- Infrastructure
- Machinery and equipment
- Intellectual property
- Inventories
- Natural resources

These allocations are informed by official statistics from China's National Bureau of Statistics and People's Bank of China, including data on fixed asset investment, research and development expenditure, and inventories. Supplemental sources, including the World Bank, were used to estimate infrastructure stocks and natural resource reserves.³³ Aggregate real asset totals remain anchored to official reported values.



Estimation of recent-year values

For countries where complete balance sheet data are not yet available for the most recent year, values are estimated using the latest available financial accounts, investment data, price indexes, and national accounts statistics. For China, we took this approach for 2023 figures onward.

For financial assets and liabilities, estimates are based primarily on quarterly financial accounts and flow-of-funds data.³⁴ For real assets, estimates are generated using a perpetual inventory method that combines the following:

- Gross fixed capital formation
- Changes in inventories
- Asset-specific depreciation assumptions
- Relevant asset price indexes

Key adjustments

The following adjustments are applied to improve comparability across countries:

- *Market versus face-value treatment of debt securities:* In national accounts financial balance sheet data, debt securities reflect source-agency methodologies and may differ across jurisdictions in their treatment of market and face values. For this reason, when looking at government debt liabilities relative to GDP, we used gross government debt directly reported by the International Monetary Fund. Balance sheet total figures still reflect government debt liabilities reported by national accounts, to ensure matching of assets and liabilities.
- *Sector consolidation:* Intrasector financial positions are removed where they represent offsetting assets and liabilities.

- *Asset classification harmonization:* National source data are mapped to a common asset taxonomy covering real estate, productive assets, inventories, natural resources, debt, equity, and deposits.
- *Historical backcasting:* Missing early-year observations are estimated using related balance sheet and macroeconomic series.
- *Structural break corrections:* Methodological changes in national statistical reporting are adjusted where necessary to preserve time-series consistency.



Acknowledgements

The research was led by **Rebecca J. Anderson**, a McKinsey Global Institute senior fellow in McKinsey's Washington, DC, office; **Jan Mischke**, an MGI partner based in the Zurich office; **Arvind Govindarajan**, an MGI partner in the Boston office; **Sylvain Johansson**, a director of MGI and senior partner in the Geneva office; **Nick Leung**, a director of MGI and senior partner in the Hong Kong office; **Shubham Singhal**, MGI chairman and a senior partner in the Detroit office; and **Carlo Tanghetti**, an MGI fellow in the London office.

Many McKinsey colleagues and alumni also participated in this research. Carlo Tanghetti led the working team. Team members were Amanda Langanke and Erik Rong. Former McKinsey colleague Olivia White also helped shape this research.

We would also like to thank Rachel Robinson, MGI editorial director; Rishabh Chaturvedi, MGI assistant managing editor; Nienke Beuwer, Suzanne Albert, and Rebeca Robboy in MGI external communications; and David Batcheck, MGI social media editor.

The article was edited by MGI senior editor Brian Blackstone. Chuck Burke provided expert support with data visualization.

We are also grateful to academic adviser Hans-Helmut Kotz, a resident fellow at the Minda de Gunzburg Center for European Studies at Harvard University and a senior fellow of the Leibniz Institute for Financial Research SAFE.

We thank our McKinsey colleague Philipp Koch for his insights and guidance.

As with all MGI research, this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution. We seek to provide business and policy leaders with the facts and insights needed to better understand the forces shaping the global economy. Any errors are our own.



Endnotes

- ¹ The global balance sheet is constructed using data and insights from national statistics offices, international organizations, and academic research. All balance sheet items are valued at market prices. This "global" picture incorporates data from a set of major economies that represent about 70 percent of global GDP: Australia, Austria, Belgium, Canada, China, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Mexico, the Netherlands, Poland, Portugal, Romania, South Korea, Spain, Sweden, the United Kingdom, and the United States.
- ² Financial assets and liabilities do not equal each other in our estimates because we use a sample of countries to represent the global total.
- ³ At the total economy level, encompassing not only households but also governments and corporations, China's wealth was nearly equal to that of the United States. While US households have more wealth than their Chinese counterparts, the US has negative net worth in its government and corporate sectors (in other words, liabilities including bonds and equity outvalue assets). The US government and corporations negatively contribute to the total wealth of the country, while in China, government and corporations constitute one-third of total wealth.
- ⁴ Averages of course mask a wide distribution: The top 1 percent of Americans by wealth have per capita wealth of \$17.5 million, compared to the bottom 50 percent, with per capita wealth of \$9,600. In purchasing power parity terms, the per capita wealth of the bottom 50 percent of Americans by wealth is lower than that of Australia, Canada, Japan, South Korea, the United Kingdom, major eurozone countries, and even China.
- ⁵ Purchasing power parity conversion here uses GDP-based PPPs. The ratio of wealth in PPP terms to dollar terms shown here is the same as GDP per capita in PPP to dollars.
- ⁶ Some caveats are in order for China's data prior to 2000. In the latter decades of the 20th century, a much greater share of real assets (including real estate) was held by the government. Government real assets dropped by more than a full multiple of GDP as household real assets grew by a similar order of magnitude in the 1990s. For further detail, see the technical appendix of *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.
- ⁷ Based on data from McKinsey Corporate Performance Analytics.
- ⁸ Some European economies, including Italy, the Czech Republic, and Portugal, also reached equity-to-GDP peaks in 2025.
- ⁹ James Tobin, *Asset Accumulation and Economic Activity: Reflections on Contemporary Macroeconomic Theory*, University of Chicago Press, 1980. Of course, questions abound regarding valuation challenges of assets, with some arguing that the high US ratio of equity to net assets is the product of mismeasured intellectual property assets in an equity market led first and foremost by major technology companies. Our research suggests that, if this argument were correct, one would roughly need to assume IP investments never depreciate or become obsolete, in contrast to statistical agencies' typical assumption of three to seven years of useful value. See also *The rise and rise of the global balance sheet: How productively are we using our wealth?*, McKinsey Global Institute, November 15, 2021.
- ¹⁰ Nearly 30 percent of firms were loss-making in 2025. Producer prices have been declining since mid-2022. Based on data from China's Bureau of National Statistics.
- ¹¹ Figures shown only partially represent off-book local government debt. In 2024, the IMF estimated central government debt at 26 percent of GDP, explicit local government debt at 34 percent, local government financing vehicles at 50 percent, and additional debt tied to special construction and government guided funds at 14 percent of GDP. 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. China's sharp uptick in government debt comes amid a drop in household demand, particularly property investment. For further discussion, see *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.
- ¹² For further reading, see Michael McLeay, Amar Radia, and Ryland Thomas, "Money creation in the modern economy," *Bank of England Quarterly Bulletin*, March 2014.
- ¹³ Note that this is a narrower definition than other variations of productive investment, which may also include real estate, especially corporate real estate. We have chosen this definition to avoid fluctuations from real estate valuation swings.
- ¹⁴ Net flows reflect gross investment less depreciation. For this reason, it is possible to have a negative net investment flow in a given year.
- ¹⁵ These imbalances are increasingly in focus for groups including the IMF and the G7. See, for example, "Understanding Global Imbalances," *International Monetary Fund*, April 6, 2026.
- ¹⁶ Net lending and borrowing also equals the current account balance. For further discussion, see *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.
- ¹⁷ For example, this includes equity value growth above net assets for corporations as well as government bonds greater than the value of government assets.
- ¹⁸ Beginning in April 2026, annual eurozone inflation grew to 3.0 percent, driven by higher energy costs. Excluding energy, inflation rates were between 2.0 and 2.5 percent in the first half of 2026.



- ¹⁹ The average personal savings rate in the eurozone was 12.5 percent from 2010 through 2019, while it was 15.2 percent in 2024 and 15.1 percent in 2025. Based on data from Oxford Economics.
- ²⁰ Official statistics show a productivity growth rate of 6.1 percent in 2025, and an average of 5.3 percent over the past five years. "Statistical communiqué of the People's Republic of China on the 2025 national economic and social development," National Bureau of Statistics of China, February 28, 2026. The Conference Board Total Economy Database in 2025 documented average rates of about 5.3 percent over the preceding five years, compared to an average of 7.9 percent from 2011 to 2019.
- ²¹ Producer prices have been declining since mid-2022. Based on data from China's Bureau of National Statistics.
- ²² For further discussion, see chapter 5, *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.
- ²³ In such a scenario, a central bank may need to choose between financial stability and inflation targeting.
- ²⁴ For more discussion of the "fiscal tightrope," see Olivia White, Rebecca J. Anderson, and Jan Mischke, "The economy is walking a tight rope. What could trip it up," *Barron's*, October 9, 2025.
- ²⁵ This is approximately equal to primary fiscal deficits in recent years, based on data from the US Treasury Monthly Statement of the Public Debt and the US Office of Management and Budget.
- ²⁶ The 3.7 times GDP and 40 percent of wealth figures refer to equity of all corporations, while the 2.4 times net assets figure refers to equity of non-financial corporations specifically.
- ²⁷ *Investment: Taking the pulse of European competitiveness*, McKinsey Global Institute, June 20, 2024.
- ²⁸ As an example, 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.
- ²⁹ This is the approximate value of the downtick in household real investment (gross fixed capital formation) from 2010s averages, based on flow of funds and fixed asset investment data from China's National Bureau of Statistics.
- ³⁰ Recent government announcements indicate that raising consumption may become a priority. Plans discussed in 2025 include boosting wages, employment, and the social safety net, including support for child- and eldercare. See, for example, Helen Davidson and agencies, "China plans to 'vigorously boost consumption' to shore up economy," *Guardian*, March 17, 2025.
- ³¹ See, for example, *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.
- ³² In theory, these two measures should be identical; in practice, they differ due to difference in source data, timing of reported flows, and other statistical differences. The Rest of the World position from the Financial Accounts of the United States closely matches the IMF estimate for the US international investment position.
- ³³ 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.
- ³⁴ For China, sectoral financial accounts are available only up to the end of 2024. For 2025, estimates for financial balance sheet items are based on a variety of monthly and quarterly accounts published by the People's Bank of China, including the uses and sources of credit funds of financial institutions, the aggregate financing to the real economy datasets, and the statistics of domestic debt securities.

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July 2026

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