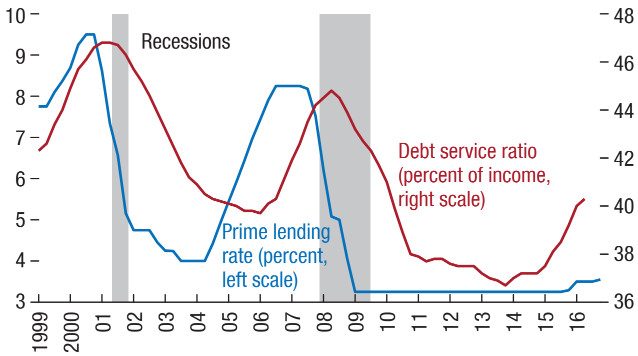
Figure 1.10. Debt Service, Interest Coverage Ratios, and Vulnerability to Higher Interest Rates

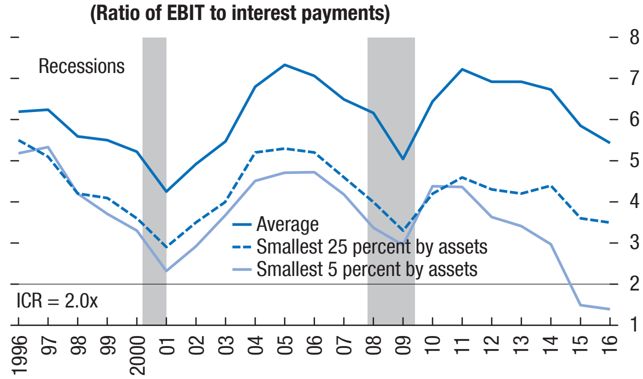
The debt service burden for the corporate sector as a whole has risen strikingly despite low rates.

1. Corporate Debt Service and Interest Rates



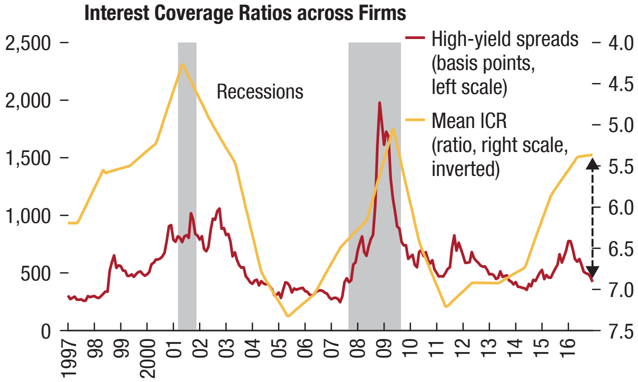
Interest coverage ratios have undergone a corresponding fall at the firm level, particularly for smaller companies.

2. Evolution of the Distribution of ICRs across Firms by Size (Ratio of EBIT to interest payments)



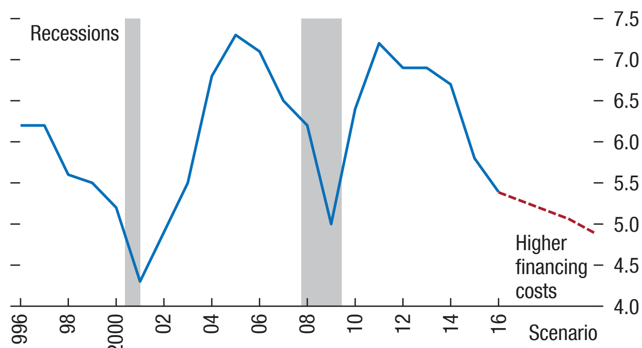
Market pricing of corporate risk has decoupled from the decline in interest coverage ratios.

3. High Yield Option-Adjusted Corporate Spread and Average Interest Coverage Ratios across Firms



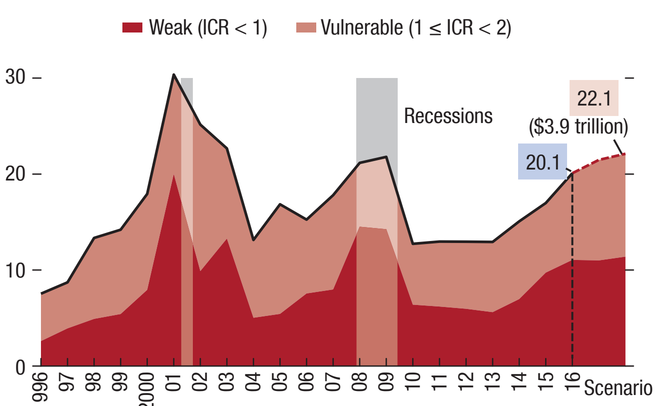
Higher financing costs could significantly weaken firms' interest coverage ratios ...

4. Average Interest Coverage Ratio (Ratio of EBIT to interest payments)



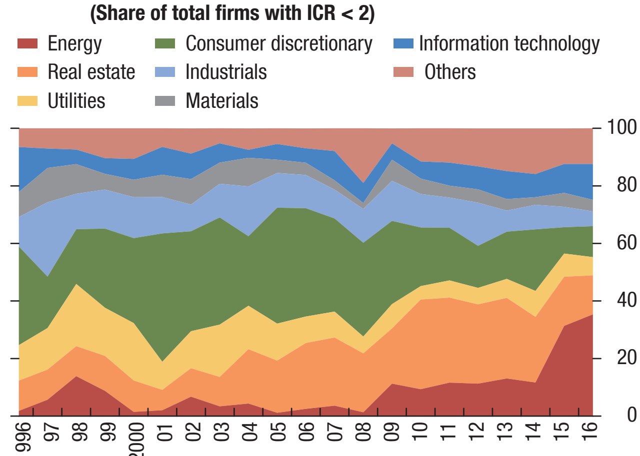
... resulting in a growing set of firms at risk of default.

5. Percentage of "Challenged" Firms (Percent of total assets)



The share of "challenged" firms has risen in the energy, real estate, and utilities sectors.

6. Evolution of "Challenged" Firms, by Sector (Share of total firms with ICR < 2)



Sources: Bank for International Settlements; Bloomberg L.P.; S&P Capital IQ; and IMF staff estimates.
Note: 2016 calculations reflect the first three quarters of the year, wherever full year estimates are not available. Shaded areas indicate economic recessions. EBIT = earnings before interest and taxes; ICR = interest coverage ratio.