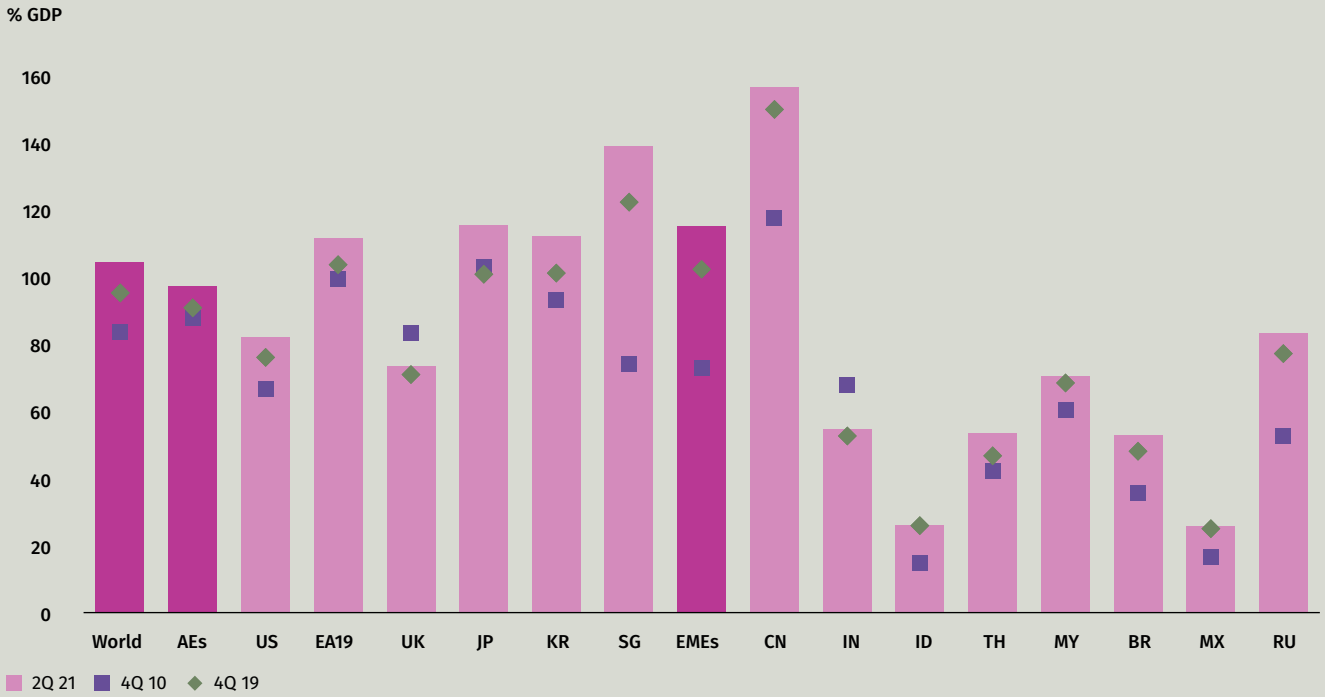
Recovery Prospects in the Global Economy: Lessons from a Corporate Balance Sheet Perspective

Introduction

Since the COVID-19 pandemic, lockdowns have been one of the policy responses to manage healthcare risks globally. This was especially the case during the early phases of the pandemic. The resultant supply shock, together with the weak demand conditions, meant firms have had to operate amidst highly uncertain conditions and were often unable to generate revenue. For firms that were adversely affected, debt financing helped to tide over periods when revenue and cash flow were affected (Chart 1). Aggressive monetary accommodation and the large fiscal support provided additional support to firms. However, as the pandemic moves past an acute phase, policymakers need to strike a balance between assisting firms that would be viable under less extreme circumstances, while not stifling corporate dynamism vital to future economic growth by protecting non-viable ones, or zombies (Banerjee and Hofmann, 2020). The presence of zombies has been linked with the economic stagnation in Japan during the 1990s and euro area post-Global Financial Crisis (GFC) (Acharya et. al., 2021a; Banerjee and Hofmann, 2020; Hoshi and Kashyap, 2015). This article will cover three main issues, drawing from existing literature. Firstly, it delves into the implications of high corporate debt. Secondly, it looks at Japan and the euro area's crisis experiences to glean some potential lessons in avoiding a slow and prolonged economic recovery. Thirdly, it concludes with important policy imperatives to secure a sustainable recovery path from the pandemic.

Chart 1: Corporate Debt in Selected Economies



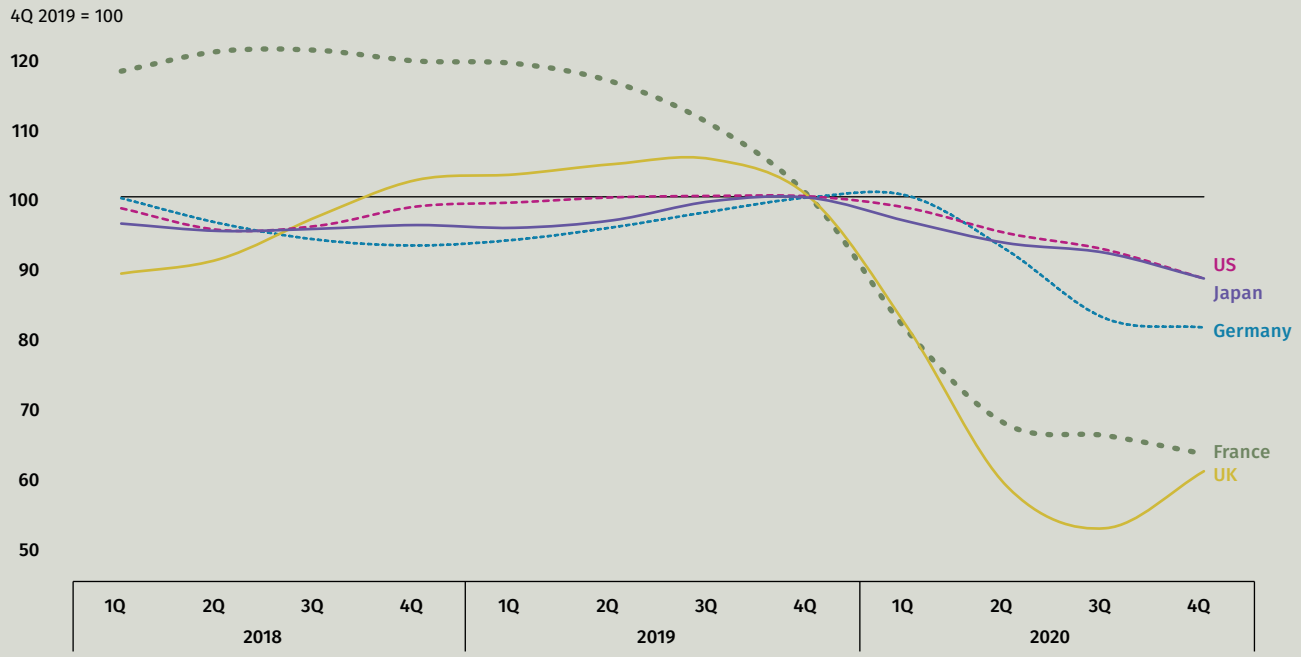
Note: Debt refers to loans and debt securities of non-financial corporates.

Source: Bank for International Settlements (BIS) Credit Database

Why is High Corporate Debt a Concern?[1]

Corporate debt globally was already at an elevated level at the onset of the pandemic (Roulet, 2020). Hence, the large supply and demand shocks over the past two years increased concerns that corporate bankruptcy would surge, especially if economic recovery was not forthcoming. However, such large-scale bankruptcies have yet to materialise (Chart 2). This risk was mitigated by significant economic and financial support from governments and central banks, which ensured favourable financing conditions and a recovery in demand conditions (OECD, 2021b). Nevertheless, the high level of corporate debt remains a concern during the current phase of economic recovery.

Chart 2: Corporate Bankruptcies in Selected Economies



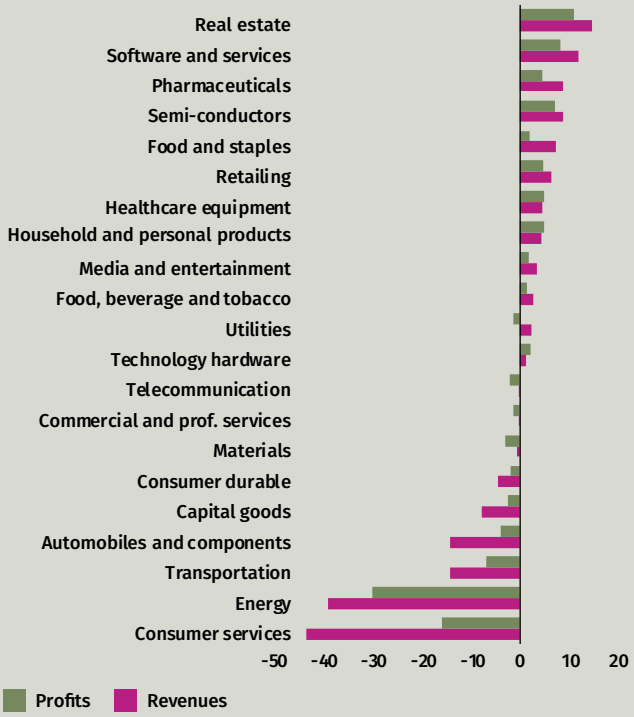
Source: OECD Timely Indicators of Entrepreneurship

Firstly, highly indebted firms tend to reduce investments after economic crises (Kalemli-Özcan et. al., 2019; Barbiero et. al., 2020). This is because they focus on paring down debt instead of investing in new capacity and innovation. However, this has not materialised during the pandemic. Instead, the rise in debt was matched by an increase in short-term and fixed investments (OECD, 2021b). The US is a case in point; investments in equipment and intellectual property recovered strongly in 2021, while structures[2] investments remained weak. This likely owes to higher demand for specific goods and services during the pandemic (Charts 3 and 4), such as communication and digital services and equipment. The recovery in investment was also facilitated by looser monetary policy. In contrast, investments in adversely affected sectors, such as energy, primary-related products (materials) and transportation (industrials), declined. This reflects the pandemic's disproportionate adverse impact in high-touch and travel-dependent services industries. Firm shutdowns and the general decline in movement also reduced demand for energy and fuel, which affected utilities and energy industries.

[1] High corporate debt is also influenced by corporate tax regimes. Interest expenses are deductible from taxable profits. Hence, higher corporate tax rates could incentivise firms, including healthy ones, to accumulate more debt (Graham, 2006; Feld et. al., 2013). However, risks from high corporate taxes are beyond the scope of this article.

[2] Structures refer to physical capital that are constructed at the location where they will be used and typically have long economic lives such as offices and warehouses (Bureau of Economic Analysis, 2018).

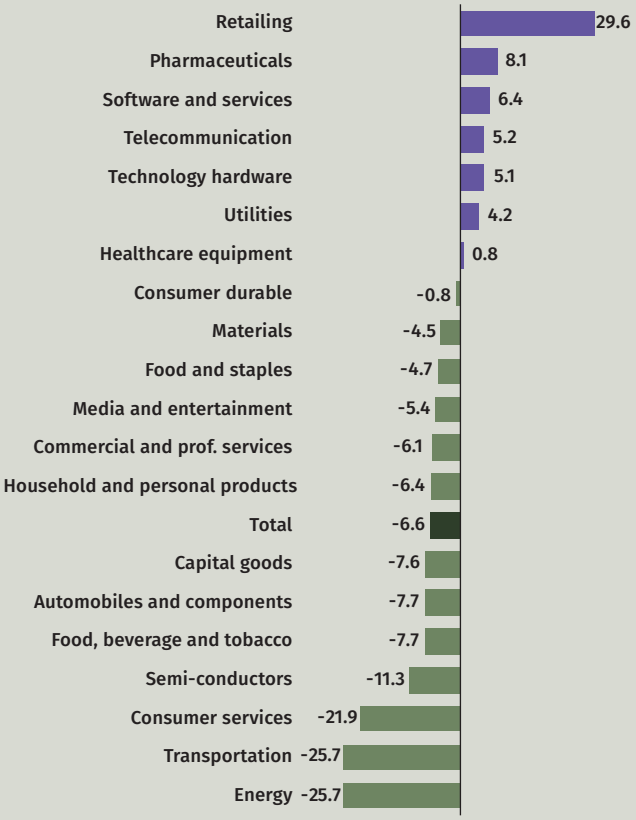
Chart 3: Changes in Revenues and Profits between FY2019 and FY2020 by Industry (%)



Notes: This chart was published in the OECD Economic Outlook (Volume 2021 Issue 1). Profits are measured using earnings before interest, taxes, depreciation, and amortisation (EBITDA). Results are reported for the median firm for each indicator and weighted by the firm's asset size in 2019. The analysis is based on firm-level data provided by S&P Capital IQ. The sample covers 55,000 public and private non-financial companies operating in OECD countries and major (non-OECD) emerging market economies (EMEs), and for which FY 2020 accounts are available. The firms covered are relatively large and collectively represent USD25 trillion of corporate debt. The median firm in the sample had USD30 million in revenues in 2019 and USD35 million in assets. 10% of firms are in EMEs.

Source: S&P Capital IQ and OECD calculations, as cited in OECD (2021a)

Chart 4: Change in Capital Expenditures by Industry (%)



Notes: This chart was published in the OECD Economic Outlook (Volume 2021 Issue 1). Bars show the change in aggregate capital expenditures for each industry. The sample of firms is the same as in Chart 3. According to the OECD (2021a), the investment increase in the retail industry is almost entirely due to the "internet and direct marketing retail" sector, and Amazon in particular.

Source: S&P Capital IQ and OECD calculations, as cited in OECD (2021a)

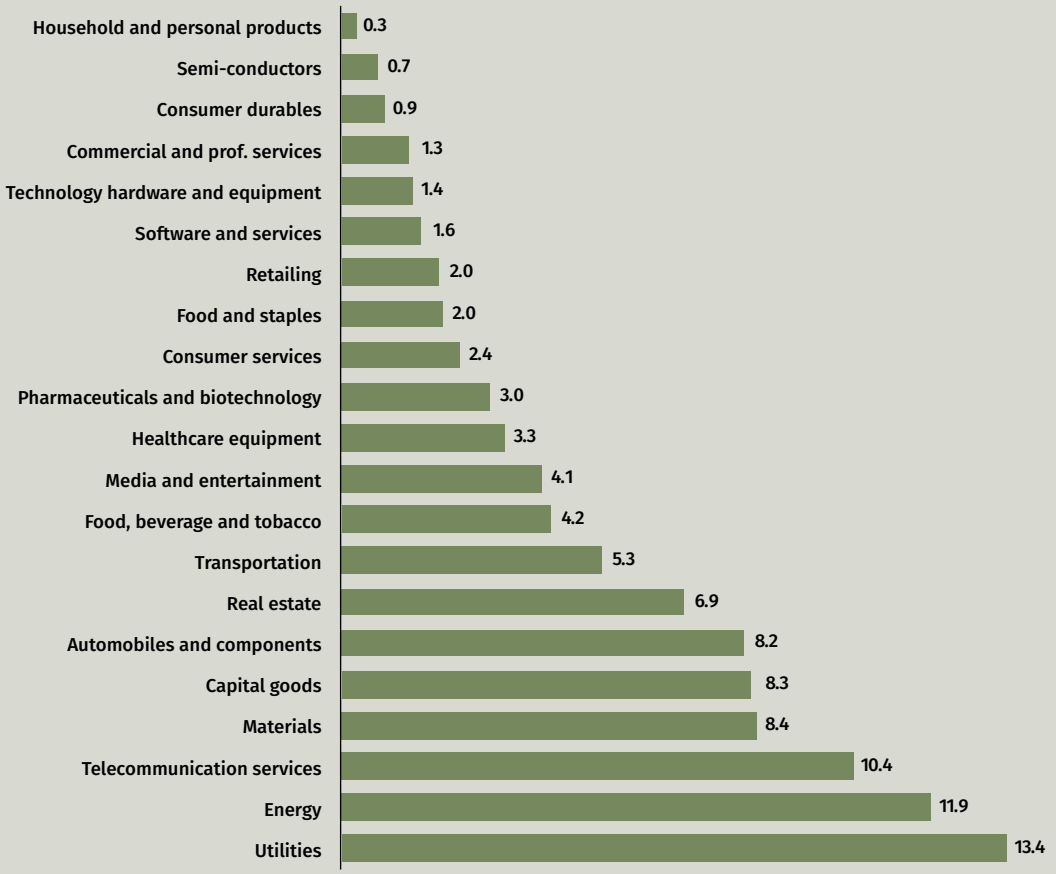
The second source of concern associated with high corporate debt is the declining credit quality of debt. Roulet (2020) found that the share of low credit-quality debt has been increasing between 2004 and 2019, particularly in the US and emerging market economies (EMEs), excluding China.[3] The OECD (2021a) estimated that roughly 30%[4] of non-financial corporate bonds globally was rated 'speculative'[5] and hence, deemed 'risky'. The profile of 'risky' debt among corporate borrowers varies by sector, affecting mainly the energy and utilities sectors (Chart 5). It is important to note that these findings cover mainly large public listed firms. Financial information remains limited for small and medium enterprises (SMEs), who have been disproportionately affected by the pandemic (Chetty et. al., 2020) and account for a large share of debt in high-touch services industries. With interest rates expected to rise, solvency risk remains a concern. This is particularly so if the recovery in the most adversely affected sectors is slow and protracted. This could trigger rating downgrades (for medium and large firms) and defaults amid rising funding costs.

[3] Roulet (2020) used data for 4,670 firms in advanced economies (AEs) and 3,691 firms in emerging market economies (EMEs). The findings highlighted large declines in credit quality of US firms since 2015. The level of debt of risky firms was similar to 2007, before the onset of the GFC. Other EMEs, particularly Latin America, Eastern Europe, the Middle East, and Africa, had the highest levels of risky debt on record. The declining trend in corporate debt quality was more moderate in Advanced Europe, Japan, and China.

[4] The data covered 2,800 public and private non-financial corporates operating in OECD countries and major (non-OECD) EMEs with an active S&P issuer rating.

[5] 'Speculative' indicates high level of credit risk or a default has already occurred.

Chart 5: 'Risky' Debt by Sub-sectors (% share)



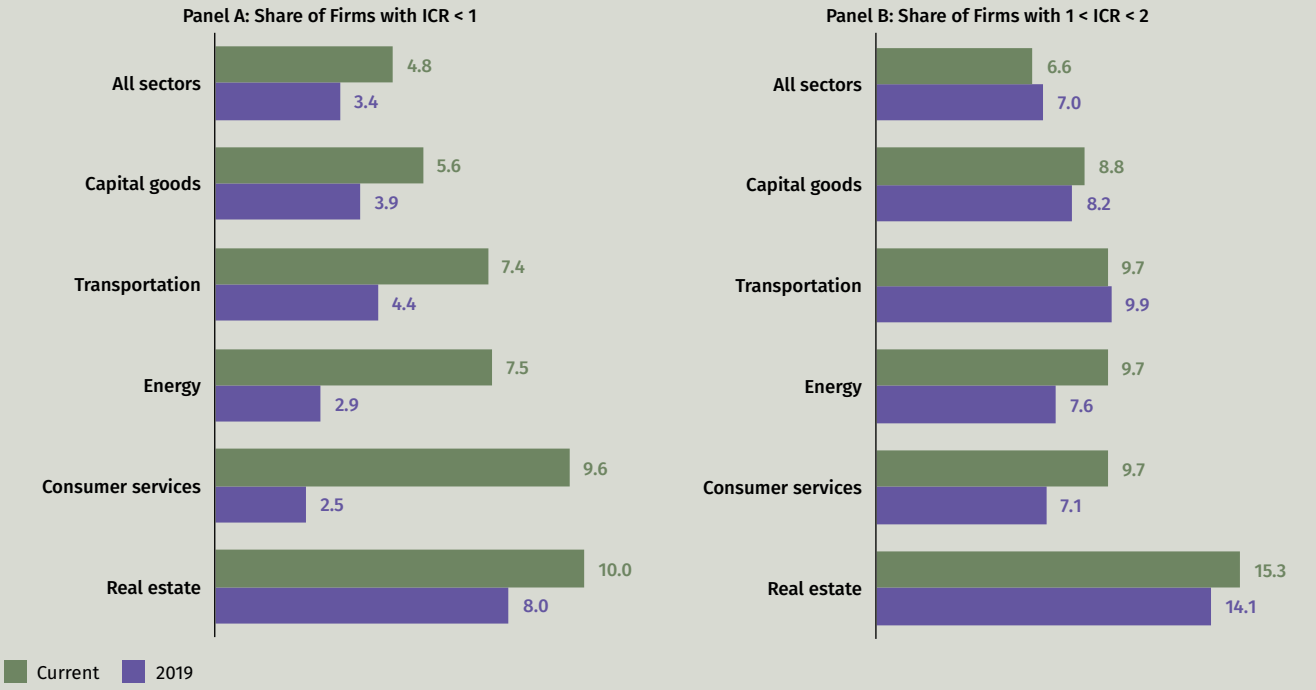
Notes: This chart was published in the OECD Economic Outlook (Volume 2021 Issue 1). OECD calculated 'risky' debt as the total debt in firms rated speculative[6] or BBB[7] for 2019. The data covered a subset of a sample of 2,800 public and private non-financial corporates operating in OECD countries and major (non-OECD) EMEs with an active S&P issuer rating. The sample mainly covers large public listed firms incorporated in AEs, but also includes private firms (30%) and/or firms in EMEs (13%).

Source: S&P Capital IQ and OECD calculations, as cited in OECD (2021a)

Thirdly, high corporate debt coupled with lower productivity could be symptomatic of rising zombification (Caballero et. al., 2008). Zombies can be defined as firms with insufficient revenue to cover loan interest costs (Chart 6) and are dependent on cheap credit to survive[8] (Acharya et. al., 2020). Unhealthy banks are more likely to be funding zombies, as their weak balance sheets constrain their ability to absorb losses from zombies' defaults, if they do occur (Andrews and Petroulakis, 2017). This in turn incentivises banks to delay the recognition of losses by rolling over debt. Based on a sample of 14 advanced economies, the share of zombie firms has increased from slightly above 4% in the mid-1980s to 15% in 2017 (Banerjee and Hoffman, 2020). The same study estimated that a quarter of zombies tended to exit the industries, while 60% graduated from zombie status over time (mid-1980s to 2017). However, recovered zombies normally underperform compared to non-zombies and are more likely to fall back into zombie status. This is because weaker profitability among zombies makes them less able to weather economic downturns, compared to non-zombies. More recent research indicates that the number of zombie firms remained contained in France (Cros et. al., 2021) and the US (Favara et. al., 2021) for 2020. This is likely due to the large magnitude of fiscal support during this period. Nonetheless, the generous financial support, in the form of low interest rates and repayment assistances, has led to concerns on rising zombification, as the pandemic prolongs (Acharya et. al., 2020).

[6] 'Speculative' indicates high level of credit risk or a default has already occurred.
[7] Despite OECD's definition, it is acknowledged that BBB firms may not be commonly classified as 'risky', since it is technically still within the 'Investment' grade. 'Investment' grade indicates low to moderate credit risk.
[8] Most studies linked zombies with funding by banks. However, zombies can also be funded via equity issuances (Banerjee and Hoffman, 2020). Denis and McKeon (2020) found that US firms with negative net cash flows often used equity financing, via private placements due to the lower fixed issuance costs, to cover current and subsequent cash flow shortages. Lu et. al. (2020) argued that Chinese zombie firms were often supported by the equity market and informal financing, mainly via trade credits.

Chart 6: Share of Larger Firms based on Interest Coverage Ratio (ICR)



Notes: This chart was published in the OECD Economic Outlook (Volume 2021 Issue 2). The OECD analysed 28,000 firms in the S&P database where ICR, the ratio between earnings before interest, taxes, depreciation, and amortisation (EBITDA) and total interest expenses for 2020 or 2021, are available (current ICR). The sample covered medium and large public and private non-financial companies operating in OECD countries and major non-OECD EMEs. ICR below 1 suggests profits are insufficient to pay interest expenses.

Source: S&P Capital IQ and OECD calculations, as cited in OECD (2021b)

The presence of zombies could have negative implications to growth and inflation, directly and indirectly (by affecting non-zombie firms). Firstly, zombies tend to be smaller, less productive and invest less (Banerjee and Hofmann, 2020). A 1 percentage point (ppt) rise in the share of zombies corresponds to a 0.1 ppt drop in productivity[9] growth for the economy.[10] Secondly, the presence of zombies creates excess production capacity, exerting downward pressure on prices (Acharya et. al., 2020). The subsidised credit allows zombies to continue producing despite being less viable. As a result, supply cannot adjust to a drop in demand during crisis, artificially suppressing inflation. For instance, inflation in Europe is estimated to be 0.4 ppt higher between 2012 and 2016, if funding to zombies had not risen. Thirdly, zombies crowd out growth among non-zombie firms by distorting competition in the economy (Caballero et. al., 2008; Banerjee and Hofmann, 2020). Besides depressing prices for their products, zombies also inflate wages by retaining unproductive workers. This has a spillover impact on non-zombies, as the artificially low prices could compress margins of healthy firms, subsequently hampering investments and new entries of non-zombies. A 1 ppt increase in the share of zombies corresponds to a 0.5 ppt drop in investments by non-zombies.[11] The crowding out effect also occurs through misallocation of resources (e.g., credit and government assistance) to zombies. The presence of zombies impedes the flow of resources to more productive firms, affecting the growth and survival of non-zombies. In short, zombies have a long-term impact on the economy as they are not only less productive, but they hinder growth of healthy firms.

[9] Proxied by Total Factor Productivity (TFP)
[10] Calculated based on firm-level data from 14 countries - Australia, Belgium, Canada, Switzerland, Germany, Denmark, Spain, France, UK, Italy, Japan, Netherlands, Sweden, and the US (Banerjee and Hoffman, 2020).
[11] Calculated based on firm-level data from 14 countries - Australia, Belgium, Canada, Switzerland, Germany, Denmark, Spain, France, UK, Italy, Japan, Netherlands, Sweden, and the US (Banerjee and Hoffman, 2020).

Lessons from Past Crises

In this section, we draw lessons from past crises in avoiding slow and protracted recoveries. We look at episodes in Japan and the euro area – the Japanese asset bubble burst (1989 to 1992) and banking crisis (1997), and the 2008 GFC and sovereign debt crisis in the euro area (2010 to 2012). These crises are different compared to the pandemic, but the concern on rising zombification provides common ground. Zombie lending, compounded by the slow recapitalisation of banks, was found to be a key reason behind the economic stagnation in Japan and euro area (Hoshi and Kashyap, 2015). Insufficient policy responses and lack of structural reforms also contributed to the prolonged stagnation. This indirectly leads to the creation of more zombies, which tend to emerge during periods of downturns (Banerjee and Hoffman, 2020). A potential explanation is the two-fold impact of downturns – lower revenue hurts firms' ability to service debt, while the increased reliance on debt[12] may come at the expense of future productivity[13].

(i) Delayed and Insufficient Policy Responses

During the GFC, monetary policy was eased in Japan, US, and euro area. However, differences in the speed and magnitude of the easing could explain the varying impacts on growth and inflation across the three countries (Hoshi and Kashyap, 2015). In particular, the US acted relatively quicker. The Federal Open Market Committee (FOMC) reduced policy rates to zero and deployed unconventional monetary policy tools, namely quantitative easing and forward guidance. As a result, it saw a relatively fast recovery and averted deflation. In contrast, euro area and Japan experienced a delayed recovery and deflation or low inflation. Concerns over the commodity price-wage spiral at the onset of the GFC in the euro area (Kang, Ligthart, and Mody, 2016; Hetzel, 2016) and the already low interest rate in Japan (Shirakawa, 2008) were among factors that could have explained differences in the speed and effects of policy responses compared to the US.[14] The experience in these economies underscores a broader policy dilemma. Low interest rates mitigate short-term impact of crises and thereby contain the rise of zombies, which tend to emerge during downturns. However, keeping rates too low for too long prolongs the life of zombies. This could hurt long-term productivity, stagnating economic growth.

Fiscal support in Japan following the early 1990s asset price declines was also insufficient to cushion the initial downturn (Hoshi and Kashyap, 2015; Posen, 1988). According to Posen (1998), only one-third of the originally announced fiscal measures were implemented. Only in 1995 did the government introduce a larger fiscal package, which led to an outperformance in growth (Hoshi and Kashyap, 2015). However, the withdrawal of these measures just before the Asian Financial Crisis led Japan back into recession by late 1997. Moreover, Japan was facing diminishing return for its public investments by the early 1990s, limiting the impact of its fiscal spending (Doi and Ihori, 2009).[15] Meanwhile, lack of fiscal support in euro area during the GFC stemmed from limited fiscal space (Hoshi and Kashyap, 2015; Lachman, 2012). In addition, the lack of a fiscal union prevented more uniform support across different Member States. This in turn adversely affected banks' ability to raise capital via private funding, which is discussed further below. This was in contrast to the US, which introduced of the Troubled Asset Relief Programme (TARP) to stabilise its financial system.[16]

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[12] Firms borrowing to sustain operations during downturns.

[13] As explained in the previous section, highly indebted firms tend to reduce investments after economic crises (Kalemli-Özcan et. al., 2019; Barbiero et. al., 2020). To repair their balance sheets, firms focus on paring down debt instead of re-investing in new capacity and innovation initiatives.

[14] Prior to the GFC, Japan was in a position where the low interest rate was ineffective in stimulating economic activity (i.e. liquidity trap) (Akram, 2016). In this environment, other policy tools, such as fiscal, had to be relied on to restore demand (Akram, 2016). There were also concerns that further rate cuts approaching zero would create market distortions, by sustaining low quality borrowers, including zombies (Hoshi, 2013; Acharya et. al., 2021a).

[15] Doi and Ihori (2009, Chapter 3) found the marginal productivity of public investments declined by the early 1990s, particularly for transportation, agriculture-related, and flood control and forest conservation industries.

[16] TARP was a USD700 billion fund created during the 2008 GFC. It enabled the purchase of the equity or capital of corporates or financial institutions, and consisted of five programmes to stabilise banks, support the automotive industry, restart flow of credit to small businesses and consumers, prevent avoidable foreclosures, and invest in the American International Group (AIG). (US Treasury, accessed online via https://home.treasury.gov/data/troubled-assets-relief-program/about-tarp on 3 February 2022)

(ii) Lack of Structural Reforms

Weak growth in the aftermath of the crises was also due to the lack of structural reforms to increase long-term productivity and potential GDP (Hoshi and Kashyap, 2015). These included the lack of reforms in Japan to address rigidities in the labour market[17] that hindered the efficient reallocation of labour to more productive sectors in the long run. This labour market rigidity also prolongs the life of zombies, instead of facilitating an organic exit and entry of new firms after a crisis. In the euro area, the high tax burden and relatively high unemployment benefits also resulted in an inflexible labour market (IMF, 2013a; IMF, 2013b; IMF, 2013c; IMF 2014). In addition, weak firm-level competition contributed to higher input costs while government fiscal consolidation, which was still in progress, left less space for fiscal support during crises (Lachman, 2012). The slowdown in sectoral reallocation of labour and adoption of new technologies led to weak productivity and economic growth (Kollman et. al., 2016). It is worth noting that in contrast to France, Spain, and Italy, Germany was more successful in implementing labour market reforms (Deutsche Welle, 2003). Germany reduced hiring cost by lowering the premium for its national healthcare system and limited the duration of unemployment benefits. Job placement services were also enhanced through a decentralised approach and an increase in the ratio of counsellors to jobseekers.

(iii) Delayed Recovery of Banks' Balance Sheets

Efforts to recapitalise Japanese and European banks were not forthcoming, leading to slower recognition of bad loans and balance sheet recovery among its banks (Collignon, 2012; Hoshi and Kashyap, 2015). In Japan, this was driven by fears of a public outcry against the government bailing out banks using public funds. In the euro area, there was also reluctance among stronger countries to bail out banks in weaker member countries. One of the adverse implications of undercapitalisation in the banking sector is credit misallocation (Peek and Rosengren, 2005). Specifically, it incentivises banks to roll over borrowings to potentially non-viable firms rather than classifying loans as non-performing (i.e. evergreening[18] of loans).[19] This allows banks to avoid recognising losses which would further deteriorate their balance sheets. This sustains zombie firms instead of allowing creative destruction to occur naturally and reduces the flow of credit to more productive firms. Kalemli-Özcan et. al. (2019) found that highly indebted firms explained the depressed post-crisis corporate investments in Europe. The effect was strongest for firms with large short-term borrowings, reflecting greater rollover risk, with links to weak banks. The effect was also more apparent in peripheral euro area member countries, such as Greece, Ireland, Italy, Spain, and Portugal, with high exposure to domestic sovereign debt.

Policy Imperatives

As the global economy navigates through the recovery amidst the pandemic, several policy implications can be drawn from lessons offered by past crises.

(i) Timely, Direct and Proportionate Support

Policy support needs to be timely, direct, and proportionate to the size of economic shocks. During the pandemic, most countries met these conditions as they took swift and aggressive actions to support households and firms, especially during the initial lockdown (OECD, 2022). Now that we are past the acute phase of crisis, and with demand conditions improving along with elevated inflation, we are faced with different challenges. Importantly, this includes charting a path of normalising the policy stance. If kept

[17] Japan's lifetime employment system, called the Subsidy for Employment Adjustment, was created in 1975 to avoid redundancies by implementing furloughs, transferring workers to related companies, and internal retraining (Hoshi and Kashyap, 2015). Subsiding firms to maintain employment helps to minimise job losses during crises but may hinder labour reallocation to more productive sectors or firms.

[18] There have been recent guidelines to monitor banks' handling of bad debt. However, there is still scope for abuse and evergreening practices to occur. For instance, banks in Europe can resolve bad loans by renegotiating payment terms, if they feel repayment is still possible (European Banking Authority, 2015). However, there have been cases of abuse in which banks renegotiate with the sole intent of avoiding write-downs (reduction of asset value), rather than reclassifying loans as bad loans (Fredriksson and Frykström, 2019). This leads to continued extension of credit to zombies.

[19] Caballero et. al. (2008) showed that evergreening of loans, proxied by the share of bank customers receiving subsidised credit, rose substantially in Japan from around 5% of firms in the early 1990s to about 30% in the late 1990s. Acharya et. al. (2019 and 2021b) found that undercapitalised banks in Europe increased credit supply to zombie firms while reducing lending to non-zombie firms, relative to better-capitalised banks after the GFC and during the sovereign debt crisis. For instance, credit growth to zombies from undercapitalised banks increased by 2 ppt in Portugal, following an unexpected rise in capital requirement (Blattner et. al., 2019).

for too long, policy accommodation, including low interest rates and generous regulatory forbearance, could lead to rising zombification and affect long-term productivity (Acharya et. al., 2021a). Policymakers will need to carefully weigh the trade-offs between the short- and long-term gains for a more sustainable recovery. As economic recovery gains traction, further government support could be made conditional on firms' viability (Banerjee and Hofmann, 2020). This could be supported by a focus on firms' pre-pandemic profitability and post-pandemic prospects.

(ii) Structural Reform is Key to Enhance Resilience

Beyond short-term measures, structural reforms are key to address long-term weakness and raise the economy's ability to weather downturns. These reforms could include investing in digitalisation in a post-pandemic era. Measures should also be taken to facilitate the efficient movement of labour to expanding firms or sectors. While job retention schemes have supported more than 50 million jobs globally during the pandemic, the recovery phase should now focus on protecting viable jobs, without hindering reallocation (OECD, 2020). For instance, Malaysia's latest five-year economic plan emphasizes the need to create high quality jobs and enhance job matching services, coupled with upskilling and reskilling efforts (Economic Planning Unit, 2021). These measures do not just target the ones retrenched during the pandemic, but those potentially displaced due to automation.

In terms of addressing zombies, policymakers should strengthen insolvency laws to enable easier exit of non-viable firms and smoother restructuring of viable firms (Andrews et. al., 2017). Reducing frictions in the corporate bankruptcy process, such as reducing processing time and personal costs to entrepreneurs, may speed up resource reallocation. For still-viable firms, facilitating a smooth restructuring helps them adapt quickly in a new environment. This includes enabling continued access to credit or a more diversified source of funding and reducing red tape. For instance, Norway passed a temporary act (the 'Restructuring Act') during the pandemic to assist still-viable firms to negotiate payments with their creditors, through a more flexible legal framework (Arntzen de Besche, 2020). This allowed firms to begin negotiations earlier, with simpler processes.[20] For Malaysia, out-of-court debt resolution platforms such as the Corporate Debt Restructuring Committee (CDRC) and Small Debt Resolution Scheme (SDRS) enable viable firms to restructure without resorting to lengthy, costly, and complex legal proceedings (Bank Negara Malaysia, 2021a). These platforms were further enhanced to allow more firms to benefit.[21] Viable firms struggling to service debt obligations can also utilise court-sanctioned rescue mechanisms, under the Companies Act 2016 (CA 2016).[22]

(iii) Maintaining Well-Capitalised Banks is Vital for Macroeconomic and Financial Stability

In times of weakness within the financial sector, accommodative monetary policy needs to be accompanied by a targeted bank recapitalisation programme (Acharya et. al., 2020). This helps to restore banks' balance sheet, which is crucial since zombie firms are normally funded by less healthy banks (Andrews and Petroulakis, 2017).[23] Due to post-GFC reforms, capital positions of banks have strengthened (Bank for International Settlements, 2021; Financial Stability Board, 2021) alongside strengthened resolution and recovery plans for banks in times of stress. This provided crucial countercyclical buffers, which banks could draw down on during downturns. As a result, banks remained largely resilient, averting the need for large-scale recapitalisation during the pandemic. This allowed banks to cushion, rather than amplify the economic shock at the height of the pandemic. For instance, banks in Malaysia were able to extend debt repayment assistance to affected households and businesses, while sustaining lending activities (Bank Negara Malaysia, 2021b).

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[20] For example, the court can choose not to appoint a creditor committee if the debtor's business is small or if the case can be handled by the leader of the restructuring committee alone (Arntzen de Besche, 2020). This reduces the number of layers involved in the restructuring process and thus, saves time.

[21] In 2017, the CDRC admission criteria was broadened by lowering the minimum debt threshold from RM30 million in 2010 to RM10 million. In September 2020, the SDRS was absorbed into the Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit, AKPK) to utilise AKPK's established online channel and create a one-stop platform on holistic debt restructuring to reach more micro, small and medium enterprises (MSMEs) (Bank Negara Malaysia, 2021a).

[22] The CA 2016 introduced two new rescue mechanisms, namely the Corporate Voluntary Arrangement (CVA) and Judicial Management (JM), in addition to the widely used Scheme of Arrangement (SOA) (Bank Negara Malaysia, 2021a).

[23] Hence, reducing private costs to banks associated with letting zombie firms default and swiftly resolving non-performing loans (NPLs) could disincentivise evergreening by banks (Andrews and Petroulakis, 2017).

Conclusion

Since its trough in 2020, global growth has rebounded swiftly in 2021, aided by large-scale economic and financial support. However, the path ahead is far from certain. There remain risks which could derail recovery prospects from this pandemic. This article highlights the risks stemming from high corporate debt, as many firms had to increase leverage to sustain their operations during the pandemic. If left unaddressed, high debt held by non-viable firms (zombies) could affect long-term productivity. Policy lessons drawn from selected crises episodes indicate that the key is to achieve a delicate balance between short and long-term needs. As we move past the acute phase of the pandemic, longer-term reforms to address economic vulnerabilities and ensuring the health of the banking system are vital.

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