INTERNATIONAL MONETARY FUND

GLOBAL FINANCIAL STABILITY REPORT

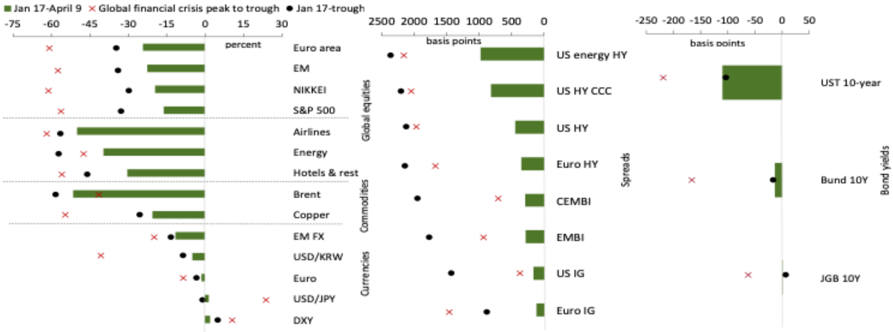
CHAPTER 1
Global Financial Stability Overview: Markets in the Time of COVID-19
(Full Report to Follow in May 2020)

2020
APR

April 2020 Chapter 1 *Global Financial Stability Report* Summary

A precipitous fall in risk asset prices

Peak to Trough Changes in Asset Prices: COVID-19 epidemic and the Global Financial Crisis

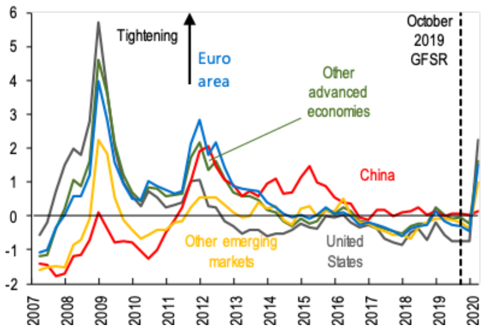


Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Financial conditions tightened sharply, at unprecedented speed

Global Financial Conditions Indices

(Standard deviations from mean)



Source: IMF staff calculations.

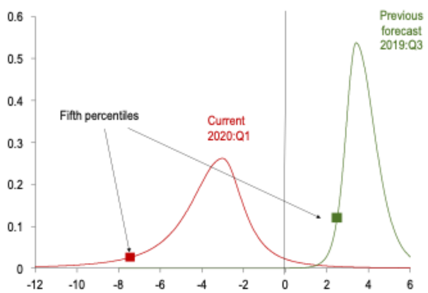
Not only was the tightening of financial conditions very abrupt, but the speed was unprecedented, even compared to the global financial crisis.

Falling equity prices and widening corporate spreads were only partially offset by declines in interest rates across most advanced and emerging market economies.

Global growth is at risk

Near-Term (2020) Growth Forecast Density

(Probability density)



Source: IMF staff calculations.

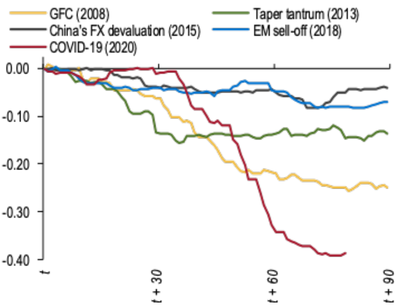
Tighter global financial conditions and the significant downward revision of the 2020 global growth forecast have shifted the near-term distribution of global growth dramatically to the left.

This implies a significant increase in downside risks to growth and financial stability.

The one-year-ahead forecast distribution based on economic and financial conditions as of March 2020 indicates a 5 percent probability that global growth could fall below -7.4 percent.

Emerging market economies saw the sharpest reversal of flows since 2008

Cumulative Nonresident Portfolio Flows to Emerging Markets (Percent of GDP, based on daily observations)



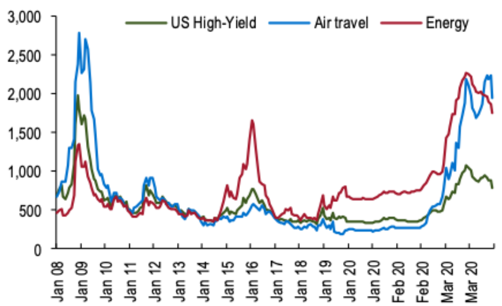
Sources: Institute of International Finance; and IMF staff calculations.

Emerging markets experienced the sharpest portfolio flows reversal on record—about $100 billion or about 0.4 percent of their GDP—posing stark challenges to more vulnerable economies.

The size and breadth of outflows—in terms of the number of affected countries—was the largest since the global financial crisis.

High-yield spreads skyrocketed

Bond spreads (Basis points)



Source: IMF staff calculations.

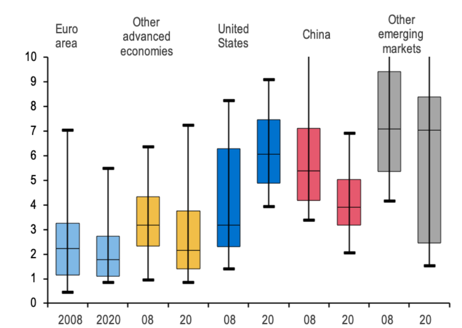
As default rates climb higher, credit markets may come to a sudden stop, especially in risky segments like high yield, leveraged loan, and private debt markets.

These markets have expanded rapidly since 2008, reaching $9 trillion globally, while borrowers' credit quality, underwriting standards, and investor protections have weakened.

Since early March, high-yield spreads have skyrocketed, particularly in the sectors most affected by the pandemic outbreak.

Market-adjusted bank capitalizations have worsened significantly

Bank Capital Adjusted by Equity Market Valuations (Percent of assets)



Sources: Bloomberg Finance LP; SNL Financial; and IMF staff calculations.

The resilience of banks may be tested. Large declines in bank equity prices suggest that investors are concerned about profitability and prospects for the banking sector.

Measures of bank capitalization based on market prices are now worse than during the 2008 global financial crisis in many countries.

Banks and other financial intermediaries may act as amplifiers should the crisis deepen further.

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