



Global Financial Stability Outlook

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Tobias Adrian

Financial Counsellor and Director, Monetary and Capital Markets Department

Near Term Global Financial Stability Risks Improving

Emerging market risks

Risks

Credit risks

Macroeconomic risks

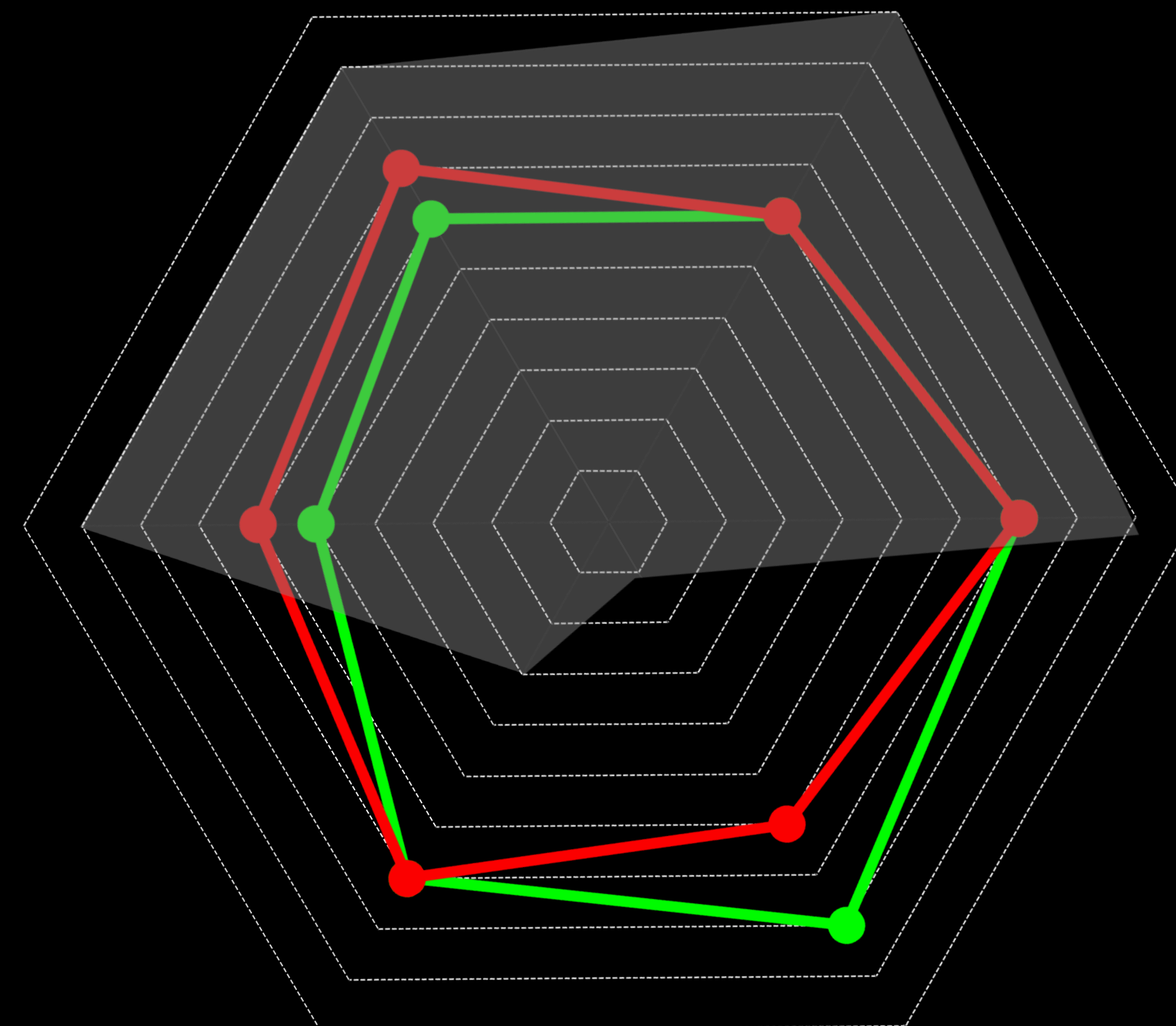
Market & liquidity risks

Monetary & financial

Conditions

Risk appetite

Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite

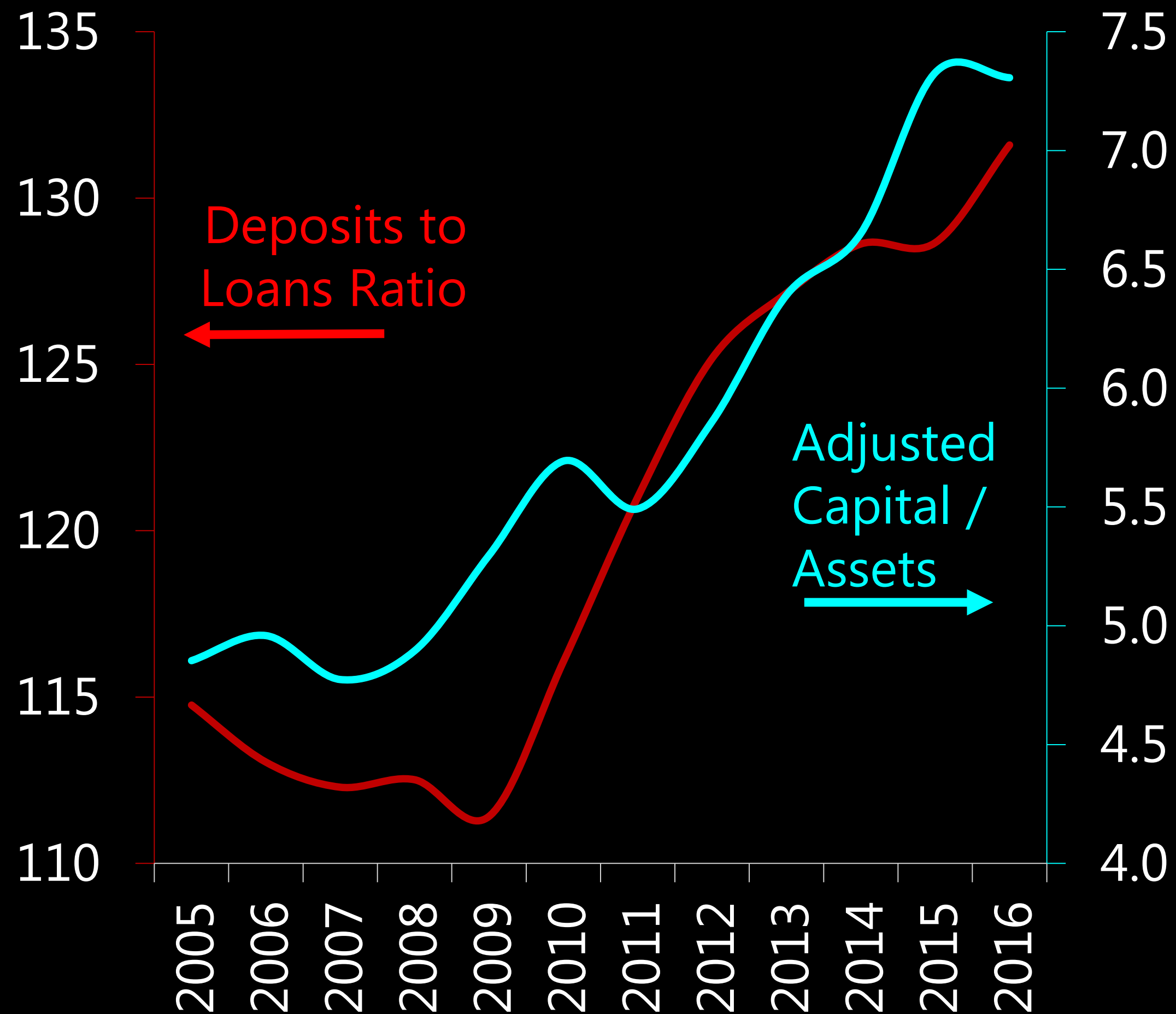


—●— Apr 2017 GFSR
—●— Oct 2017 GFSR
— Global Financial Crisis

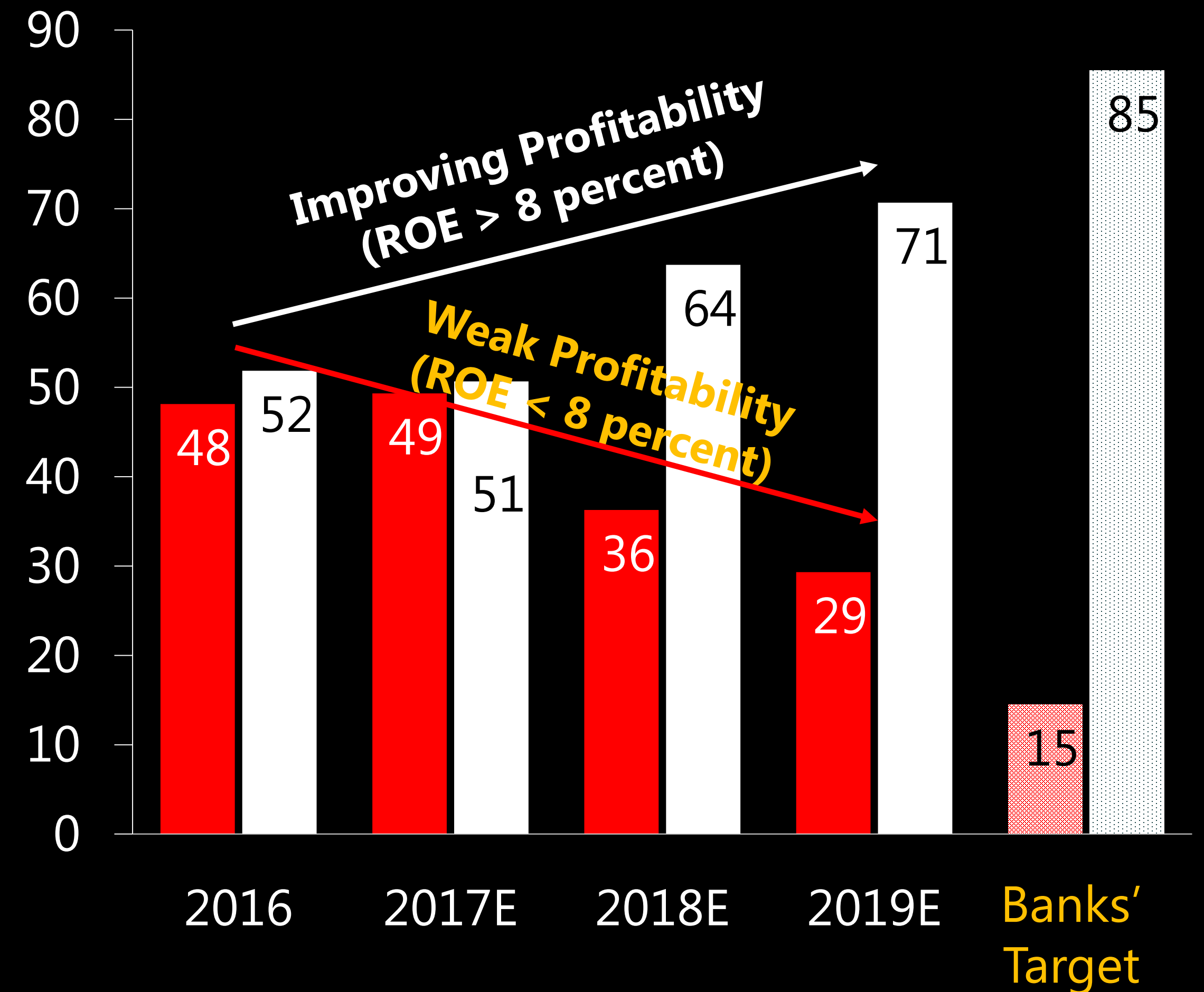
Core Banking System More Resilient

Improving Resilience but Profitability Challenges Remain

Improving Capital and Liquidity (Percent)



Profitability Challenges Remain (Percent of Assets)

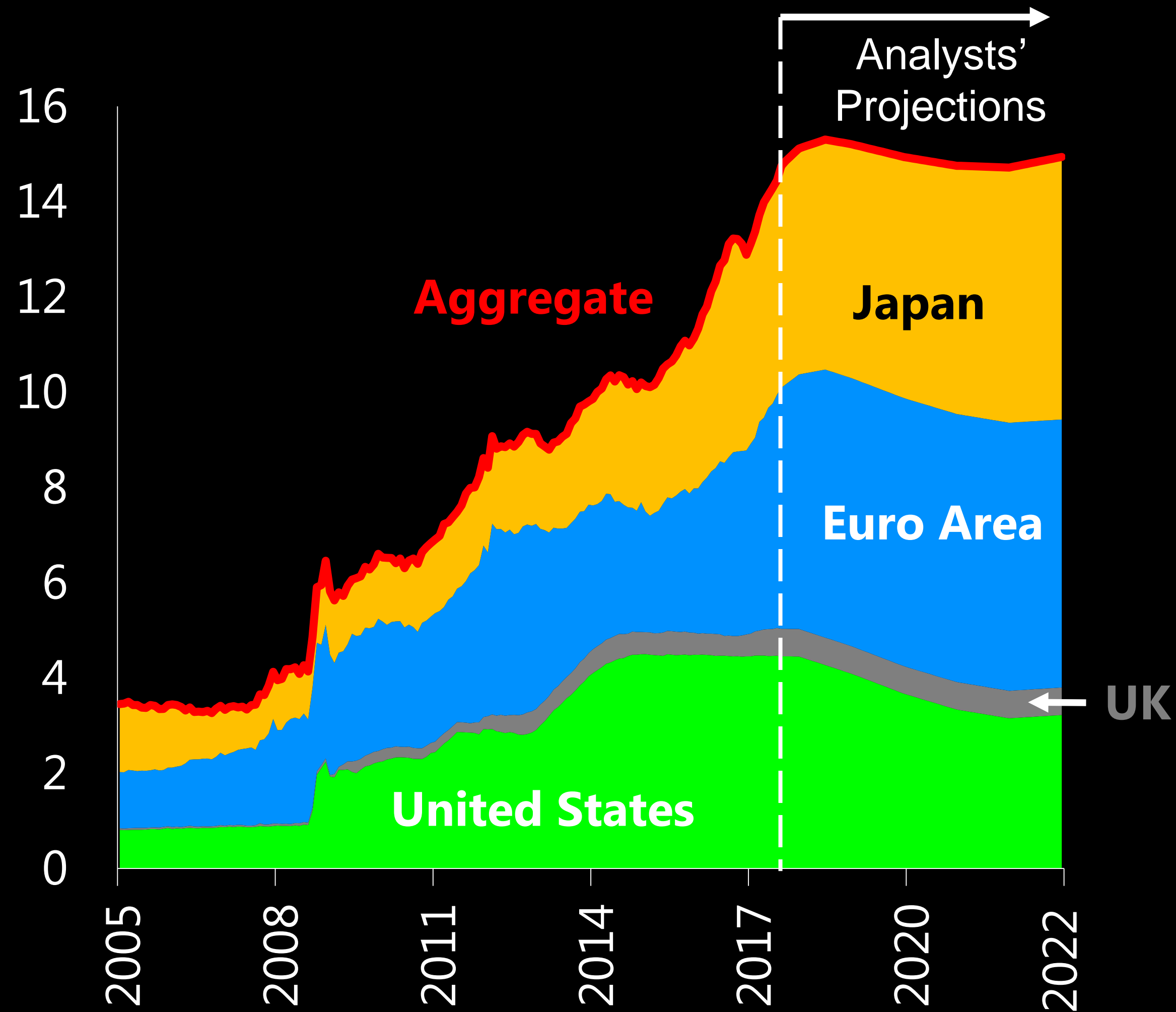


Market Risks Are Rising

Monetary Policy Support: Still Needed

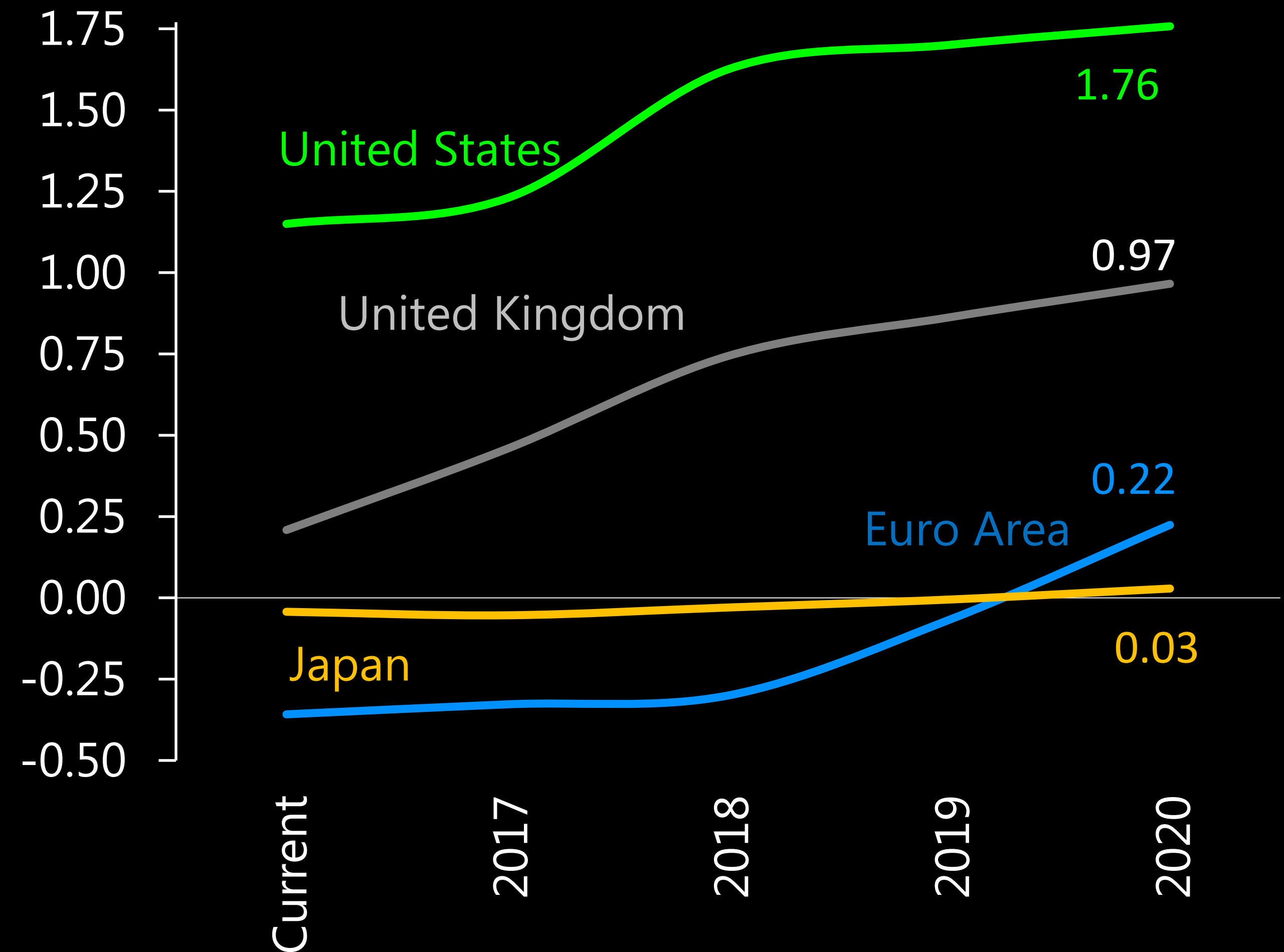
Gradual Central Bank Balance Sheet Reduction

(Central Bank Outstanding Assets, Trillions of USD)



Prolonged Low Policy Rates

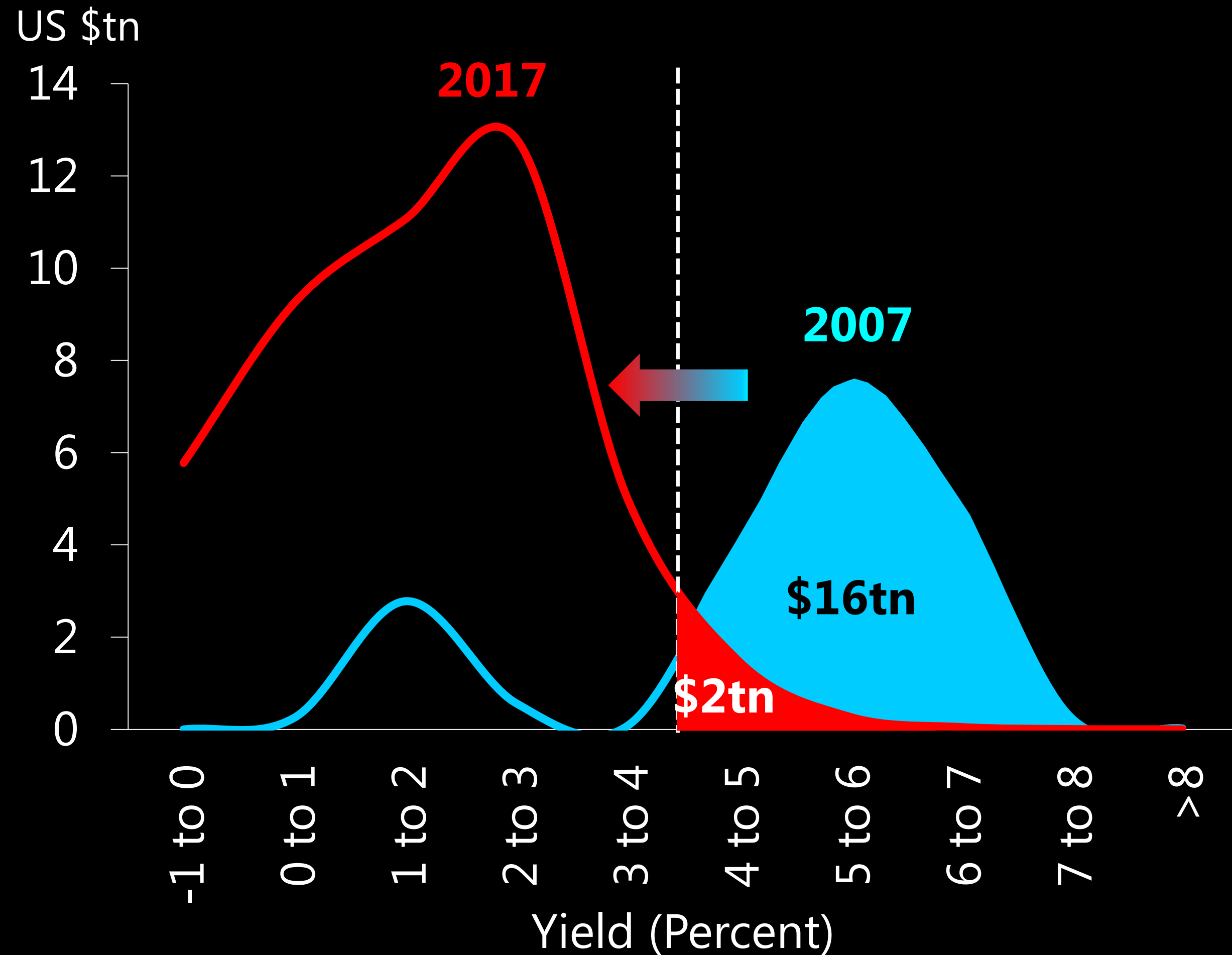
(Market Implied Policy Rates, Percent)



But The Search For Yield Is Going Too Far

Fewer Yielding Assets...

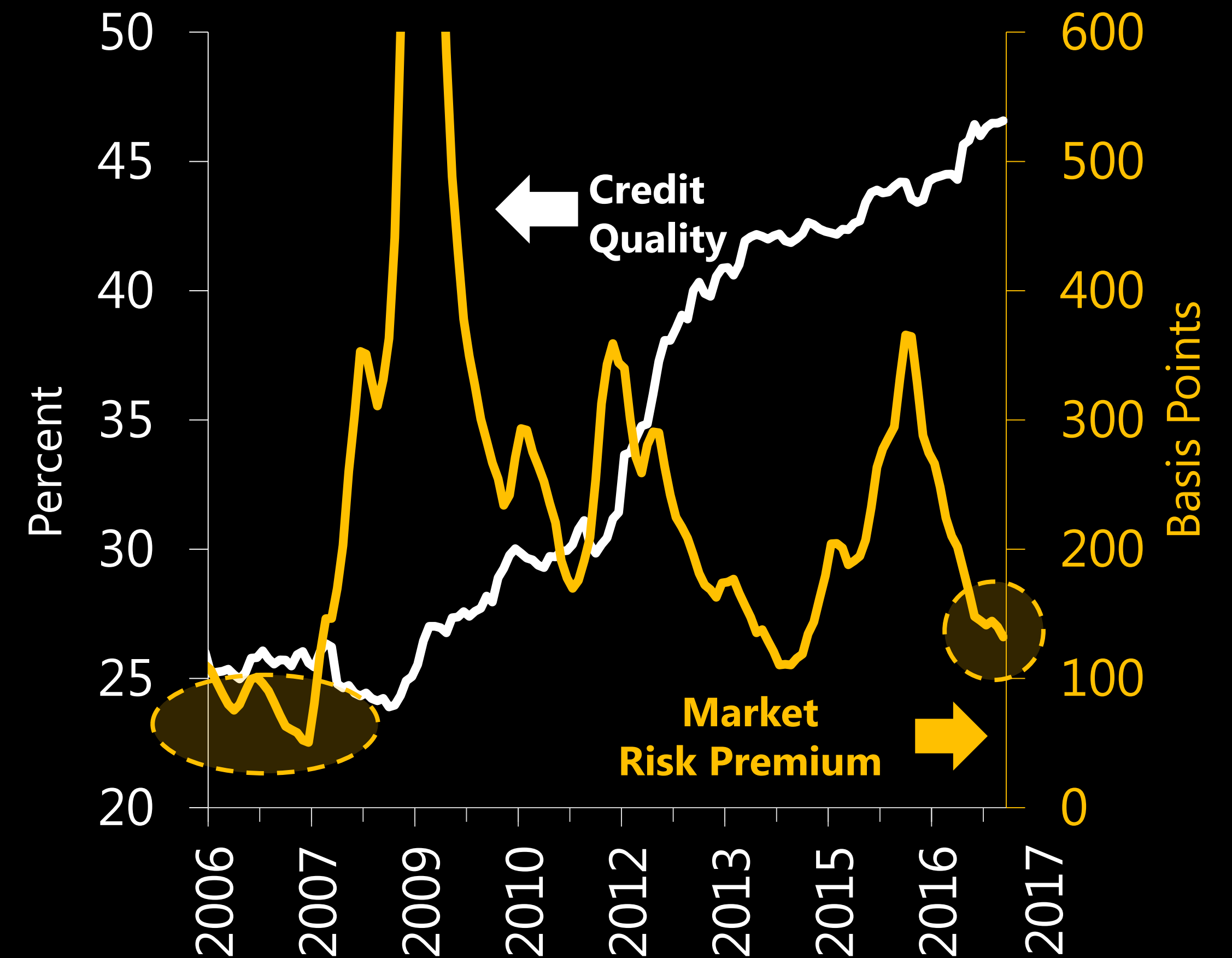
(Global Investment-Grade Fixed Income Instruments)



... Compressing Premiums

As Credit Quality Worsens

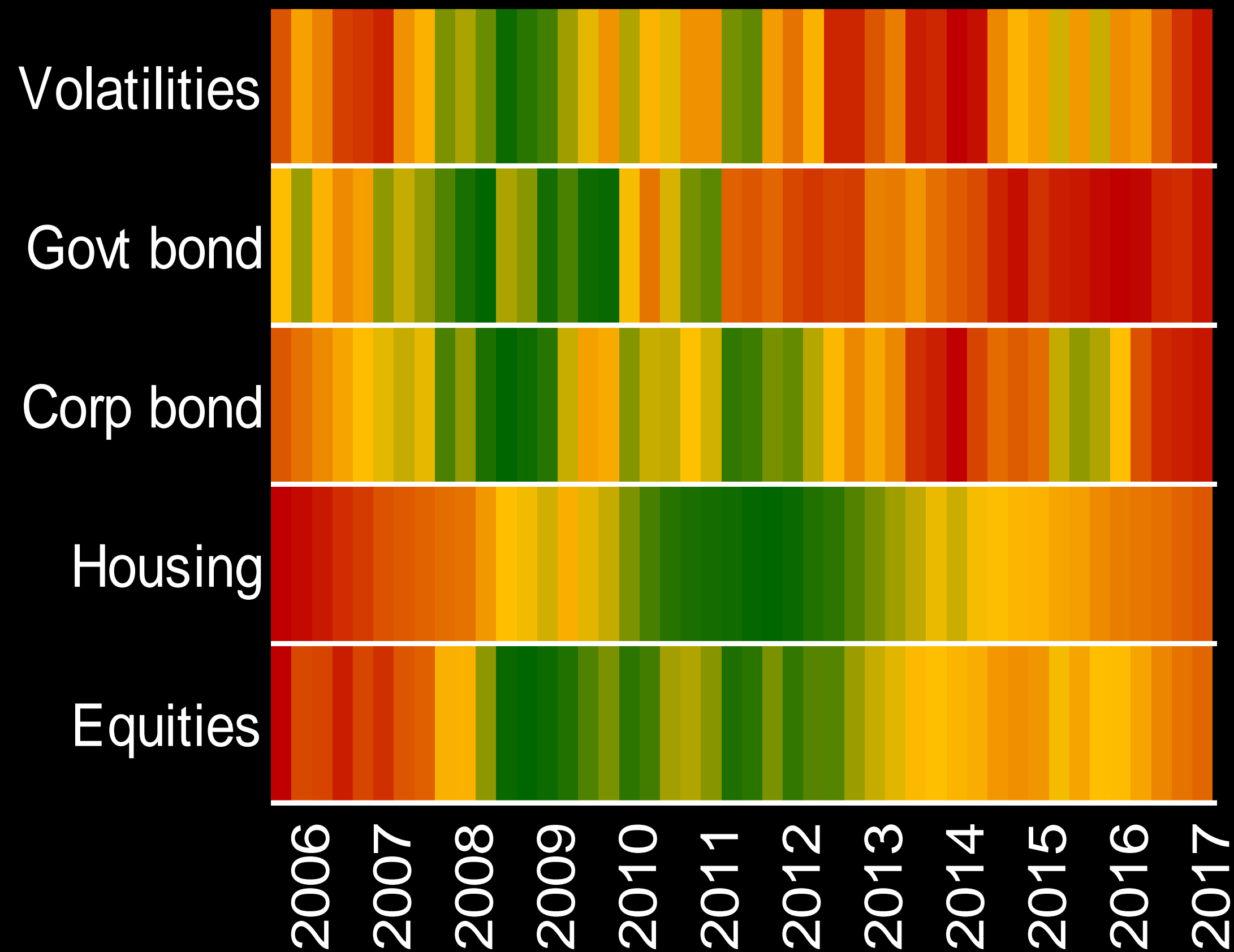
(Market Risk Premium, Share of IG BBB Bonds)



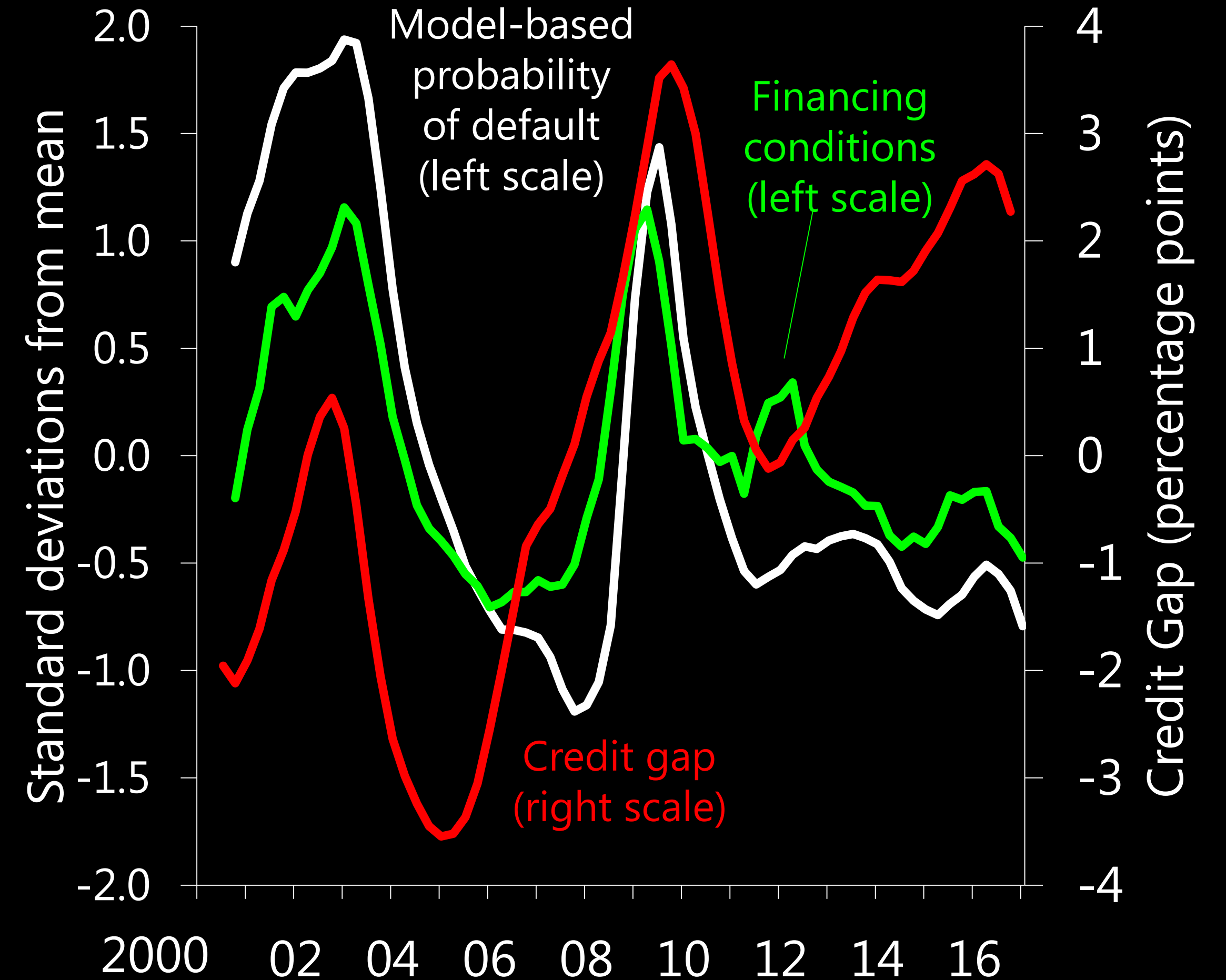
The Volatility Paradox: Low Volatility Breeds Complacency

Low Volatility and Rising Valuations...

(AE Assets, Percentile Rank)



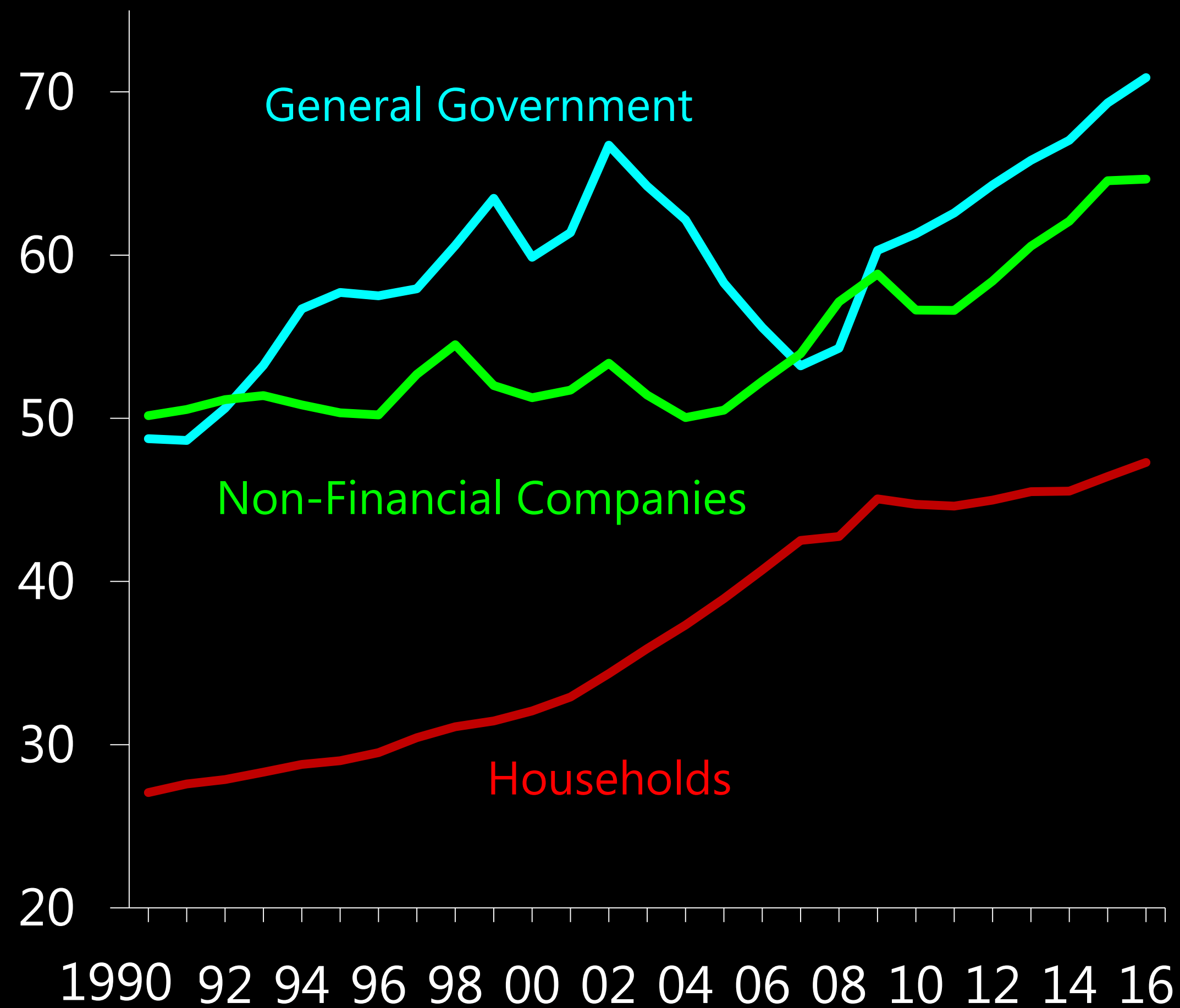
... Leading to Rising Leverage And Complacency



Higher Leverage And Debt Service Challenges

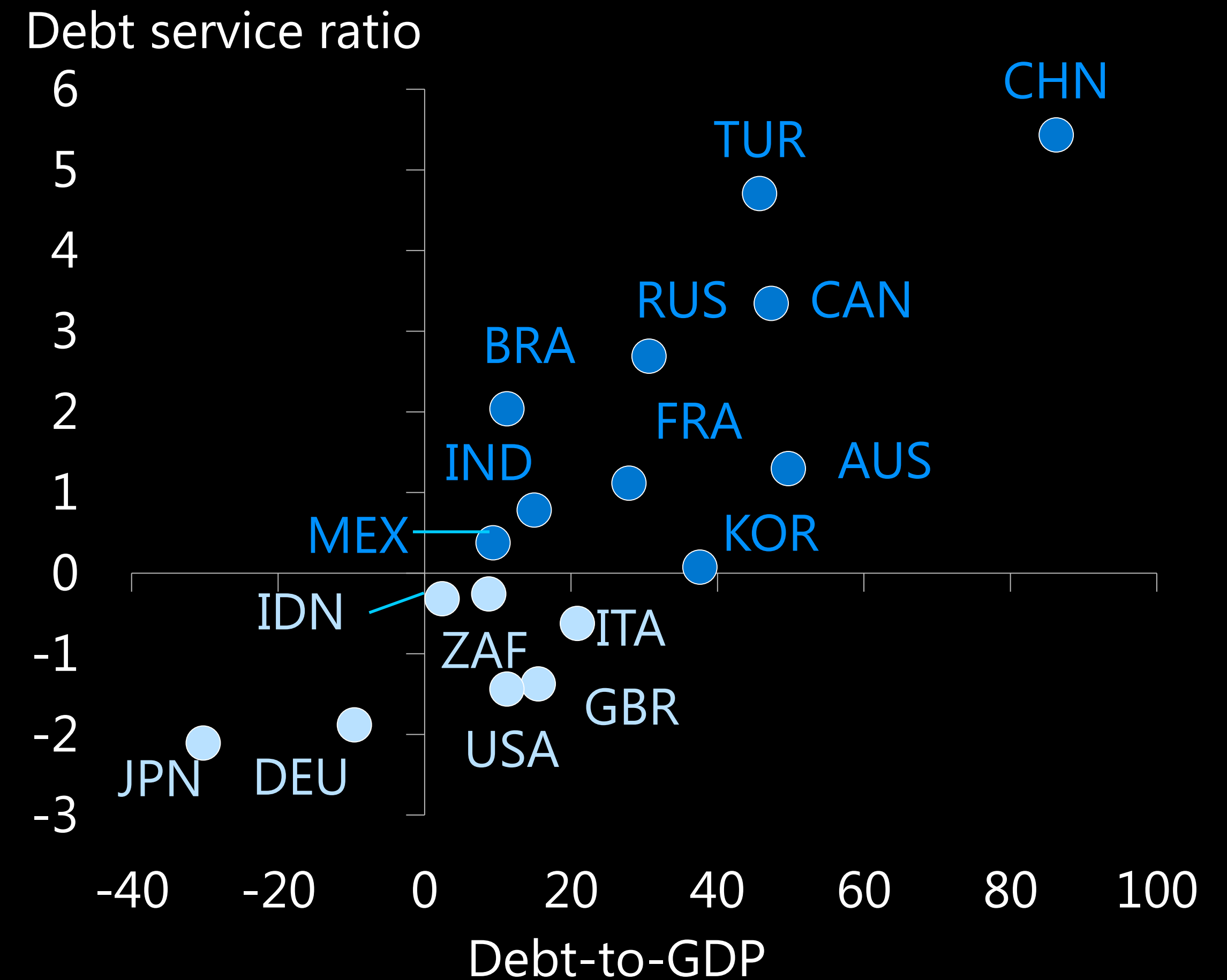
Debt Continues To Rise...

(Average Debt-to-GDP Ratios for G20 Economies, Percent)



.. Increasing Debt Service Burdens

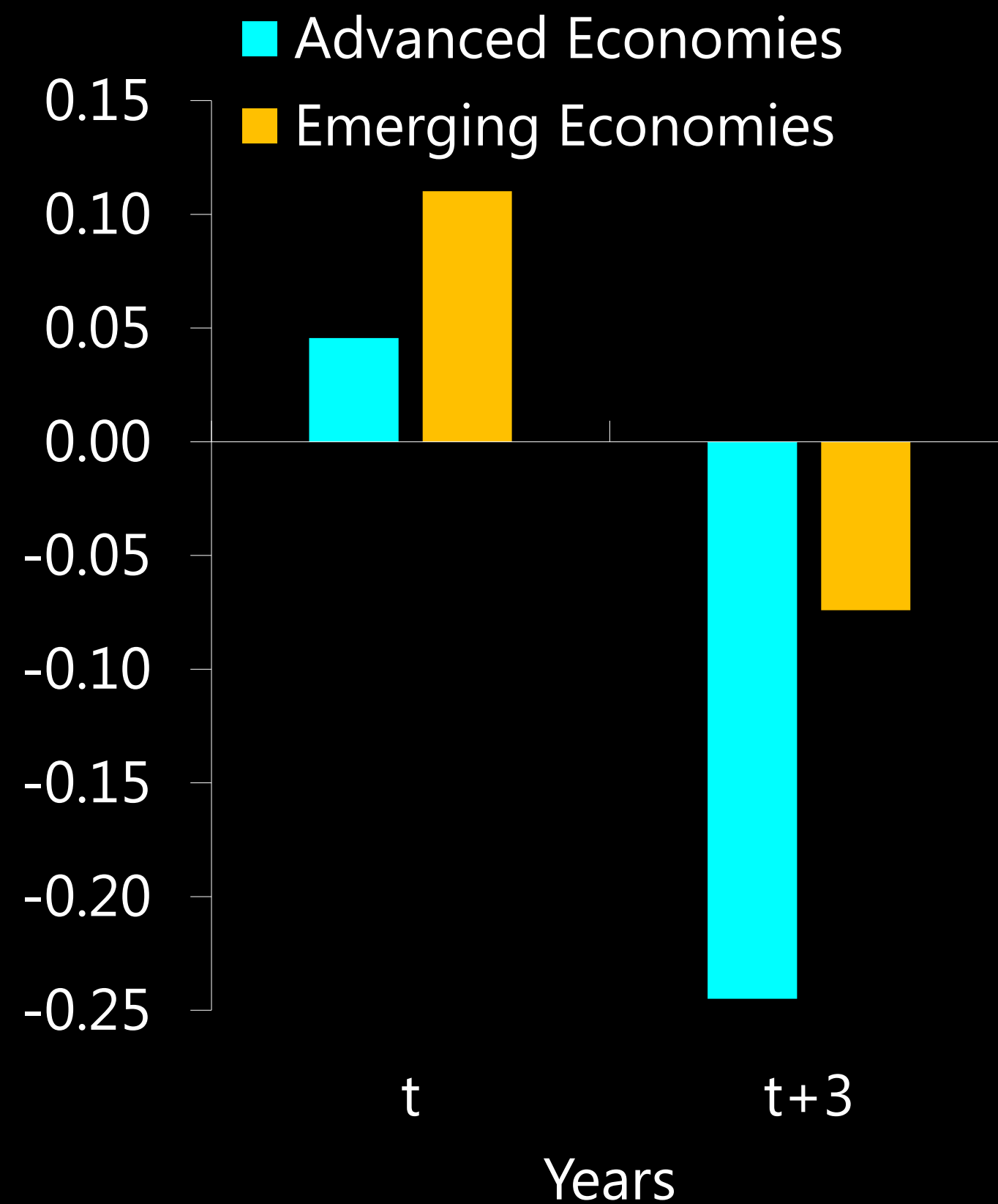
(Deviation From Mean, Percentage Points, 2016)



Rising Household Debt Could Challenge Growth

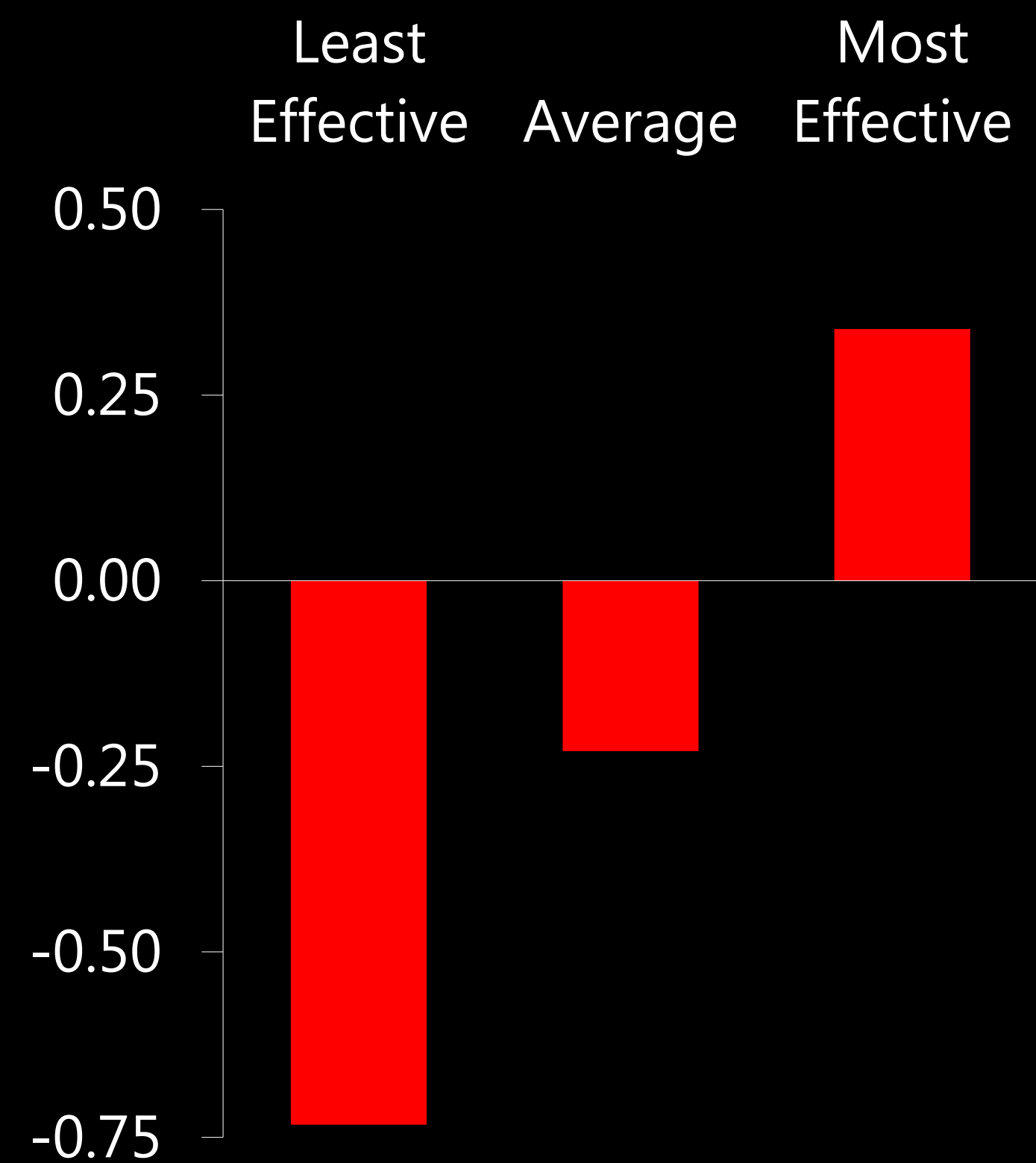
Short Term Expansions May Pose Future Risks to Growth

(Growth Effect of a 1 Percent Increase in HH Debt to GDP, Percent)



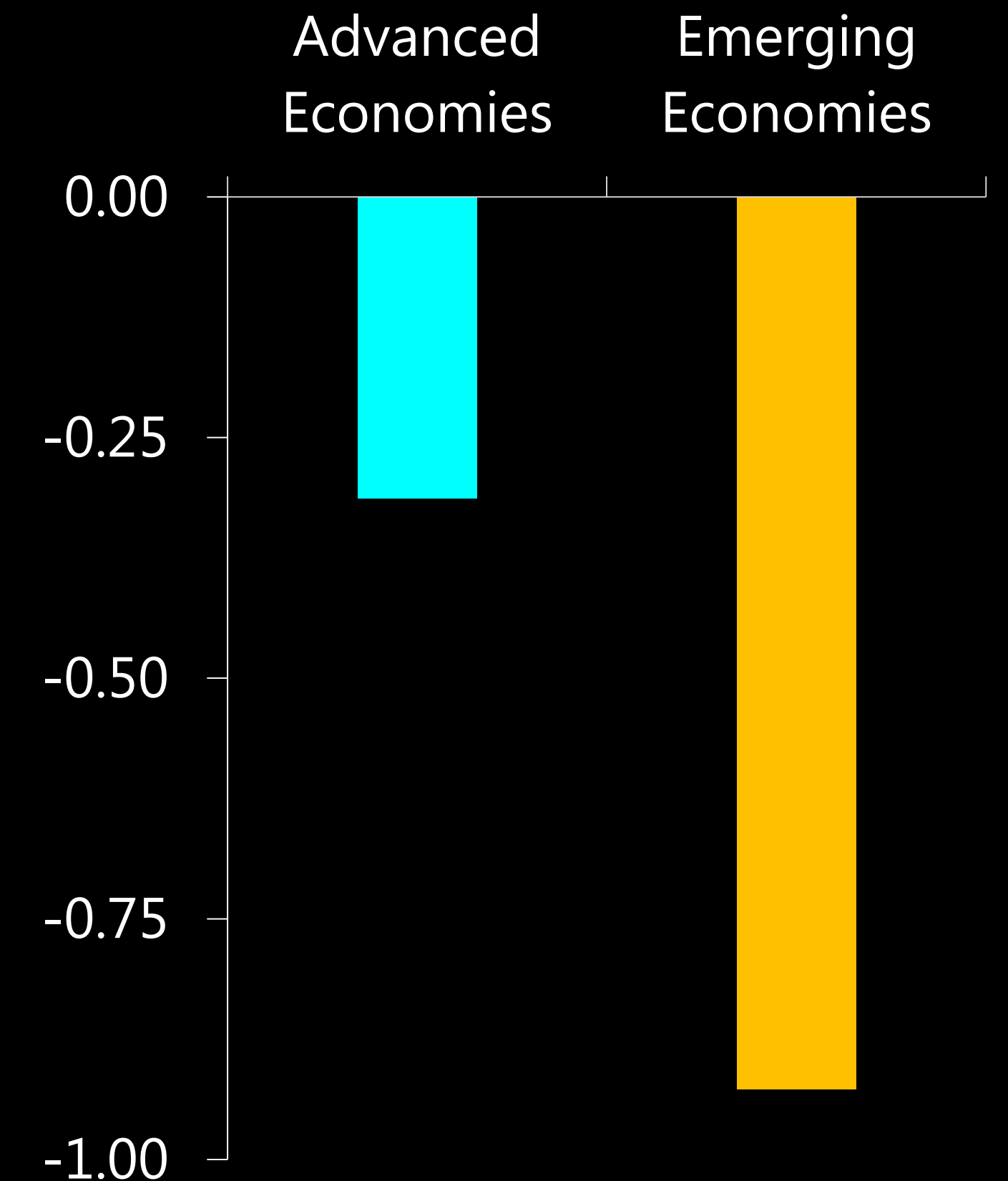
Effective Policies & Institutions Could Mitigate These Risks

(Growth Effect at t+3 of a 1 Percent Increase in HH Debt to GDP, Percent)



Macprudential Policies Can Curb Household Credit Growth

(Impact of a Tightening on Real Household Credit Growth, Percentage Points)

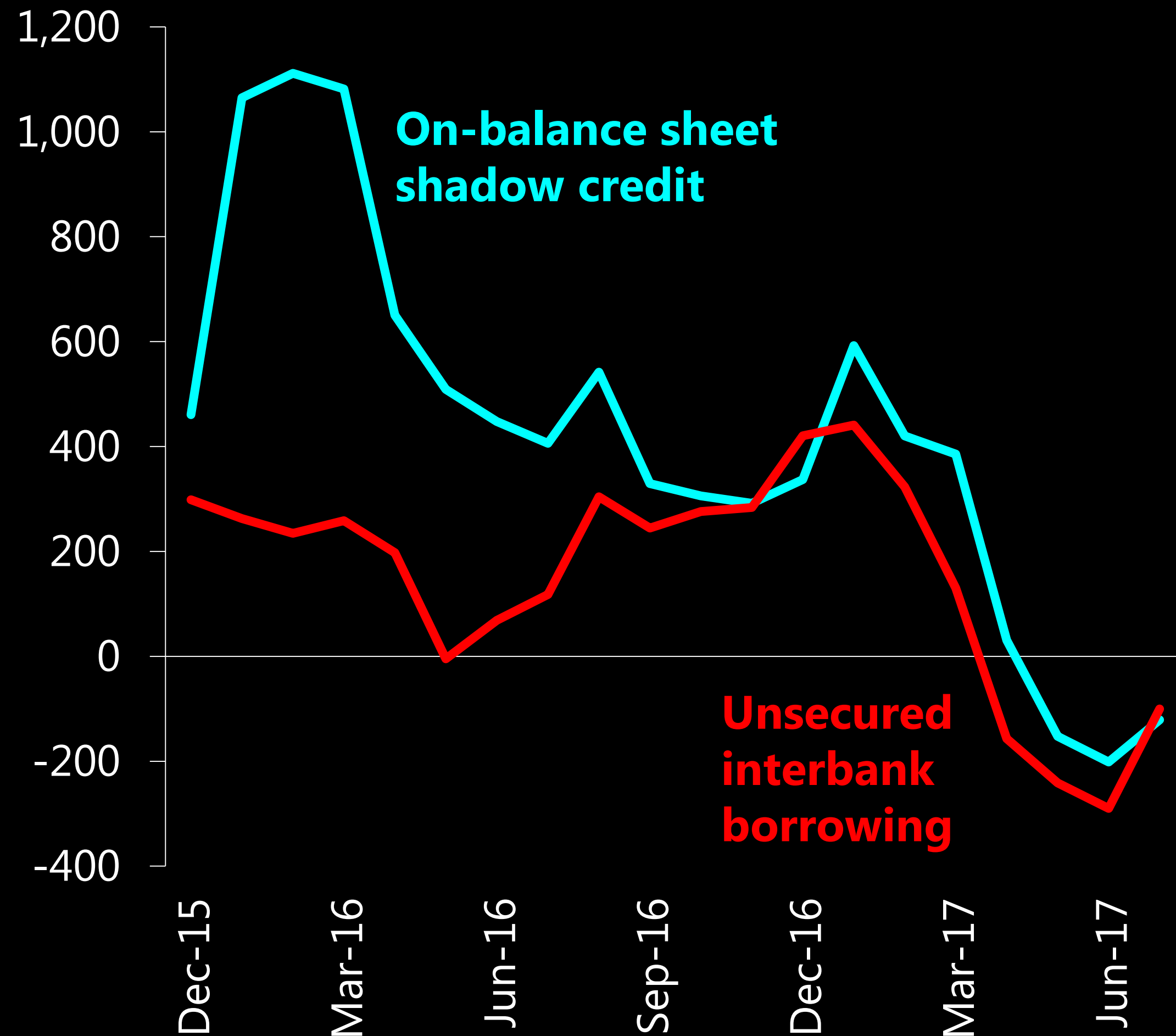


Emerging Markets: Still Waters?

China: A Delicate Balancing Act

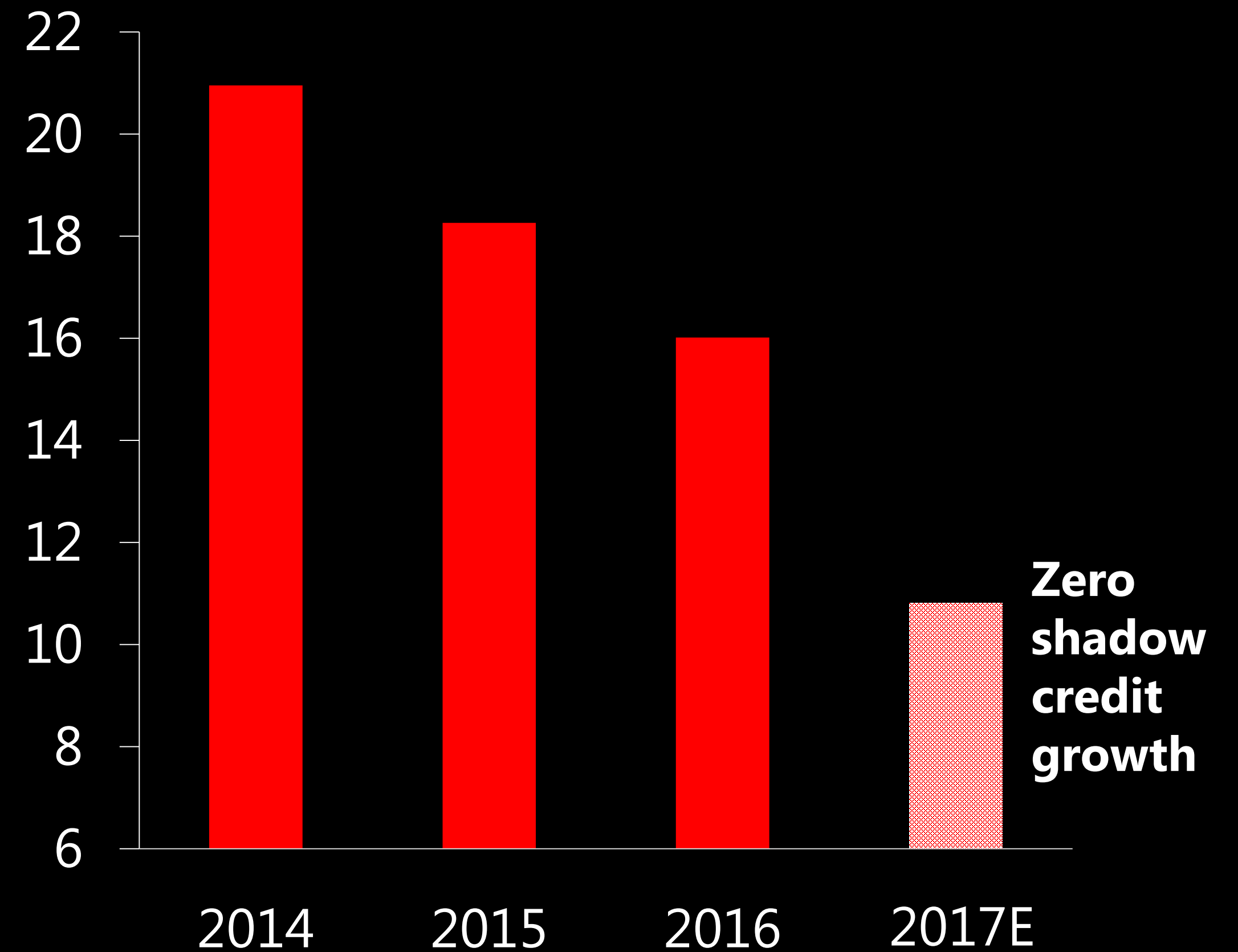
Regulatory Tightening of Small and Medium Sized Banks...

(Monthly Change, Three Month Average, Billions of RMB)



... Could Impact Credit Growth

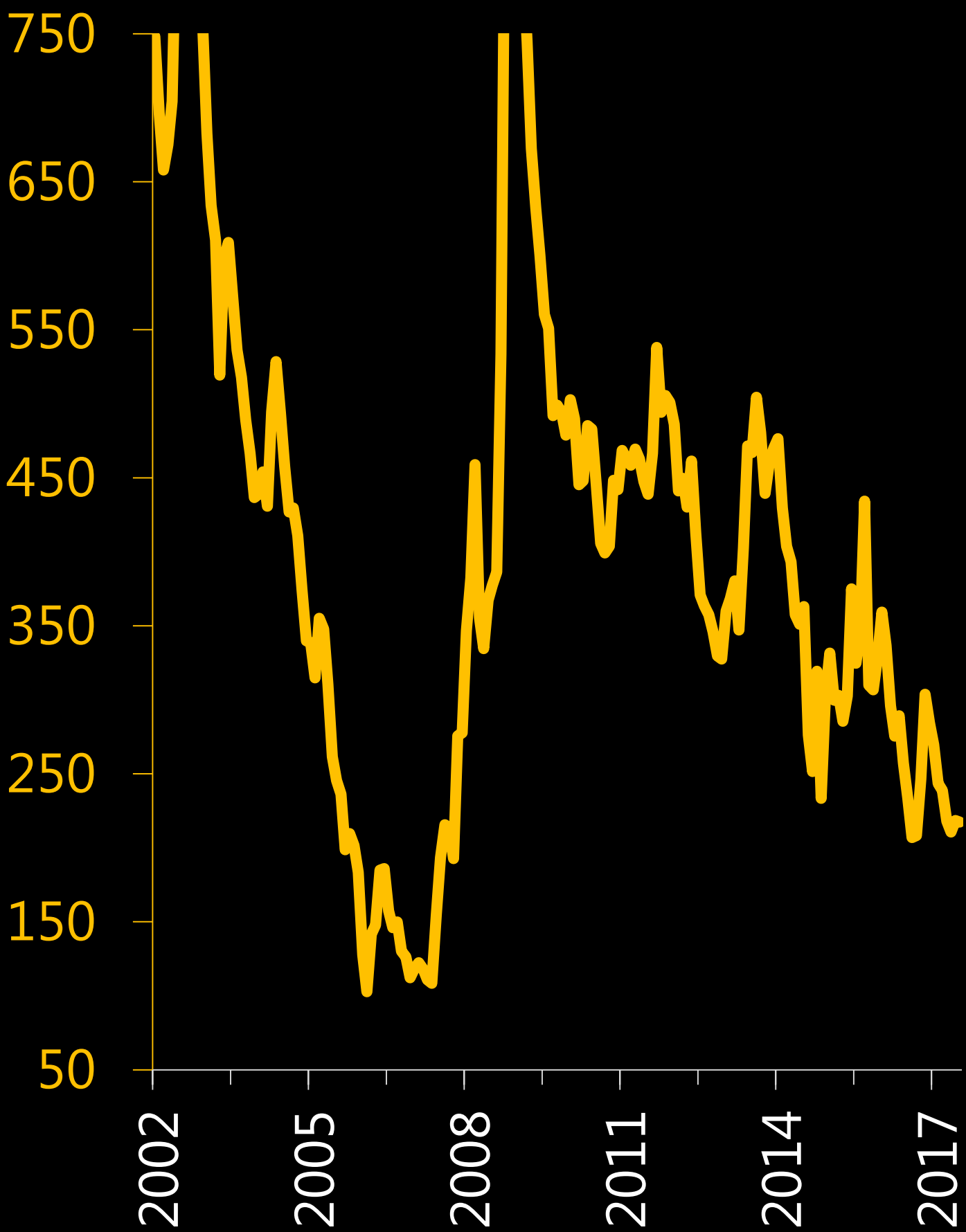
(Credit Growth Under Shadow Credit Growth Assumption; Percent)



Benign External Conditions, but EM Vulnerabilities Remain

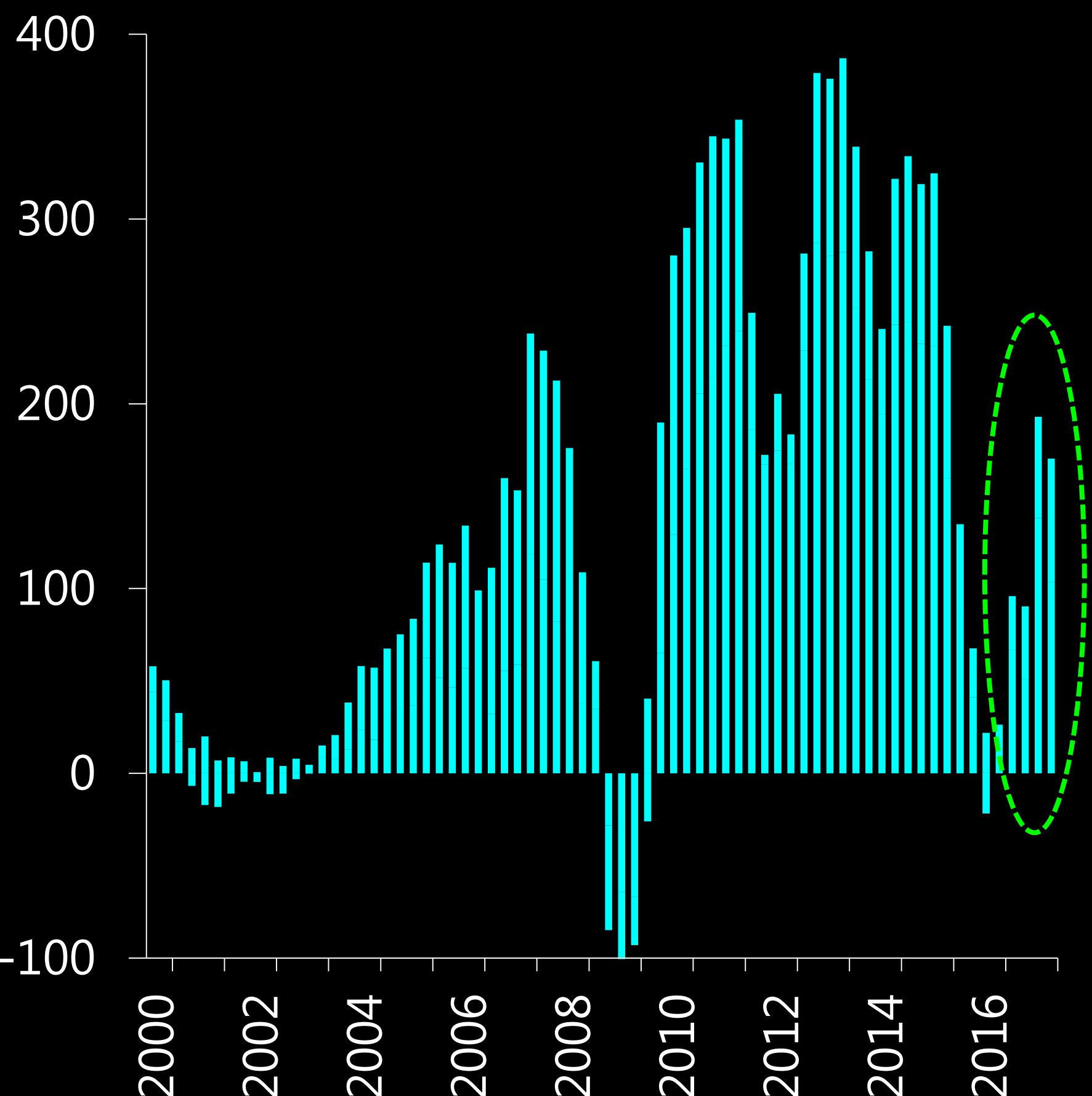
Risk Premiums Have Compressed

(Market Risk + Term Premium, Basis Points)



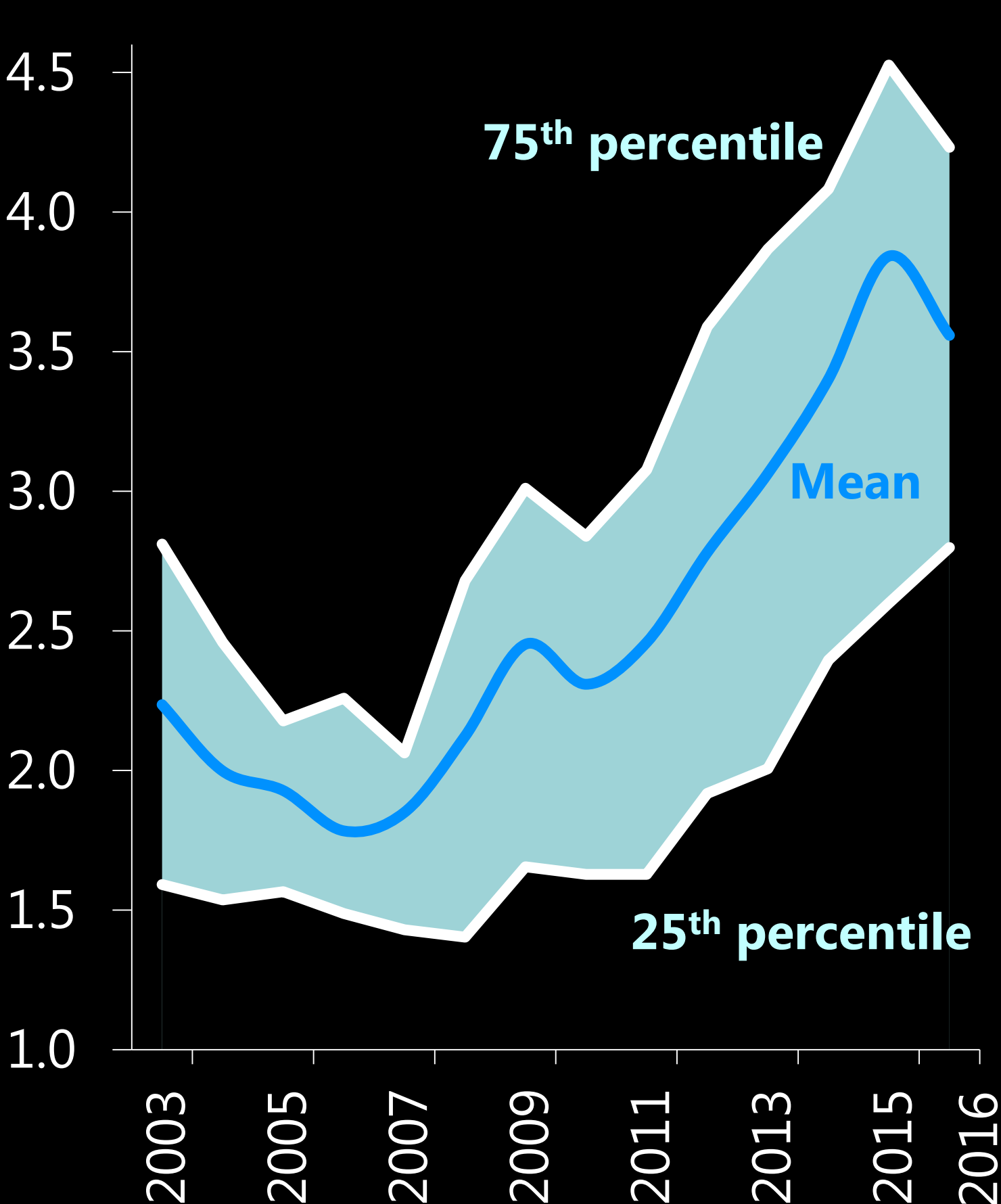
Portfolio Flows Have Rebounded

(Billions of USD, Four-quarter Rolling Sum)



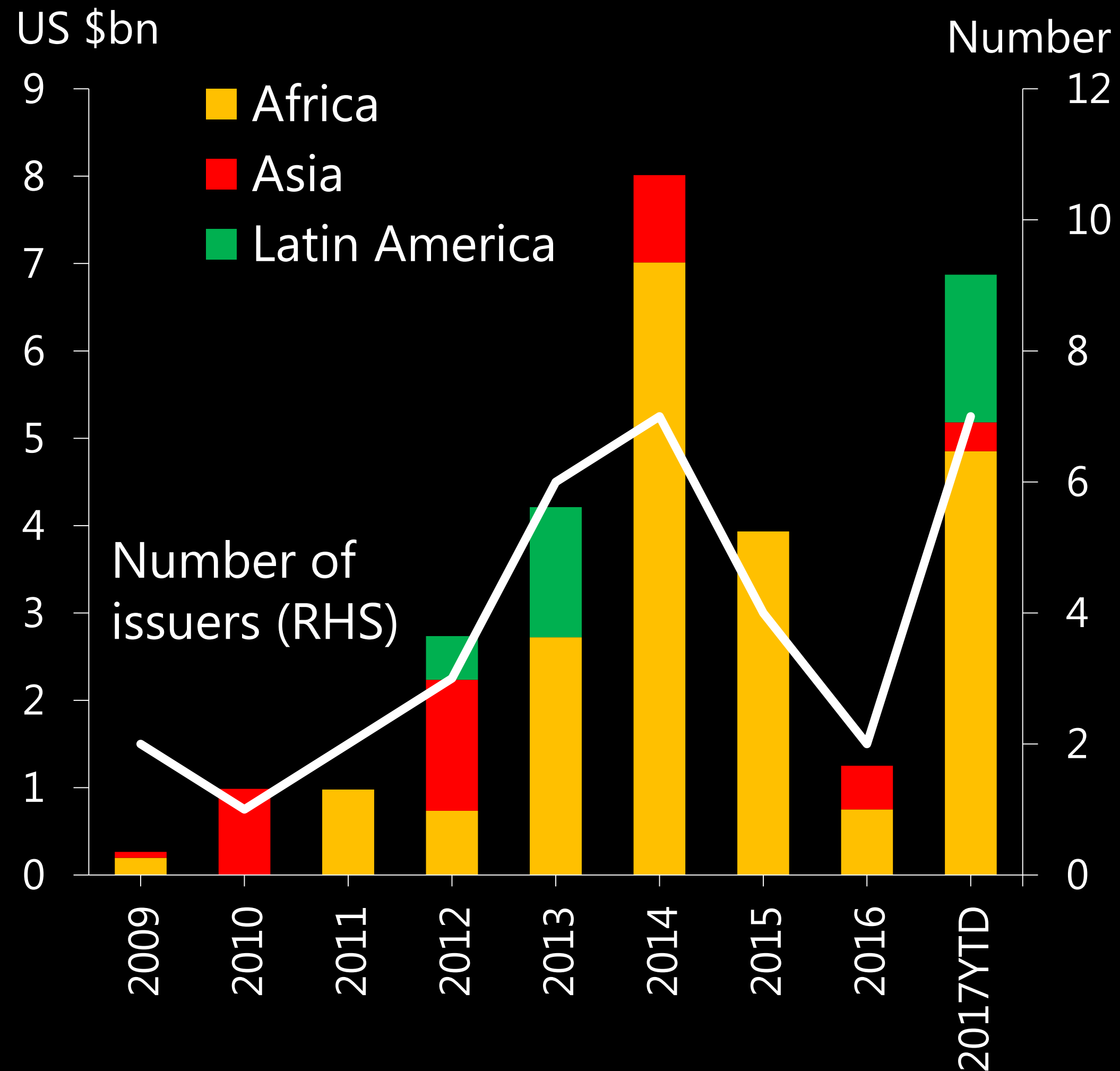
Corporate Leverage Remains High

(Total Debt to EBITDA, Multiple)



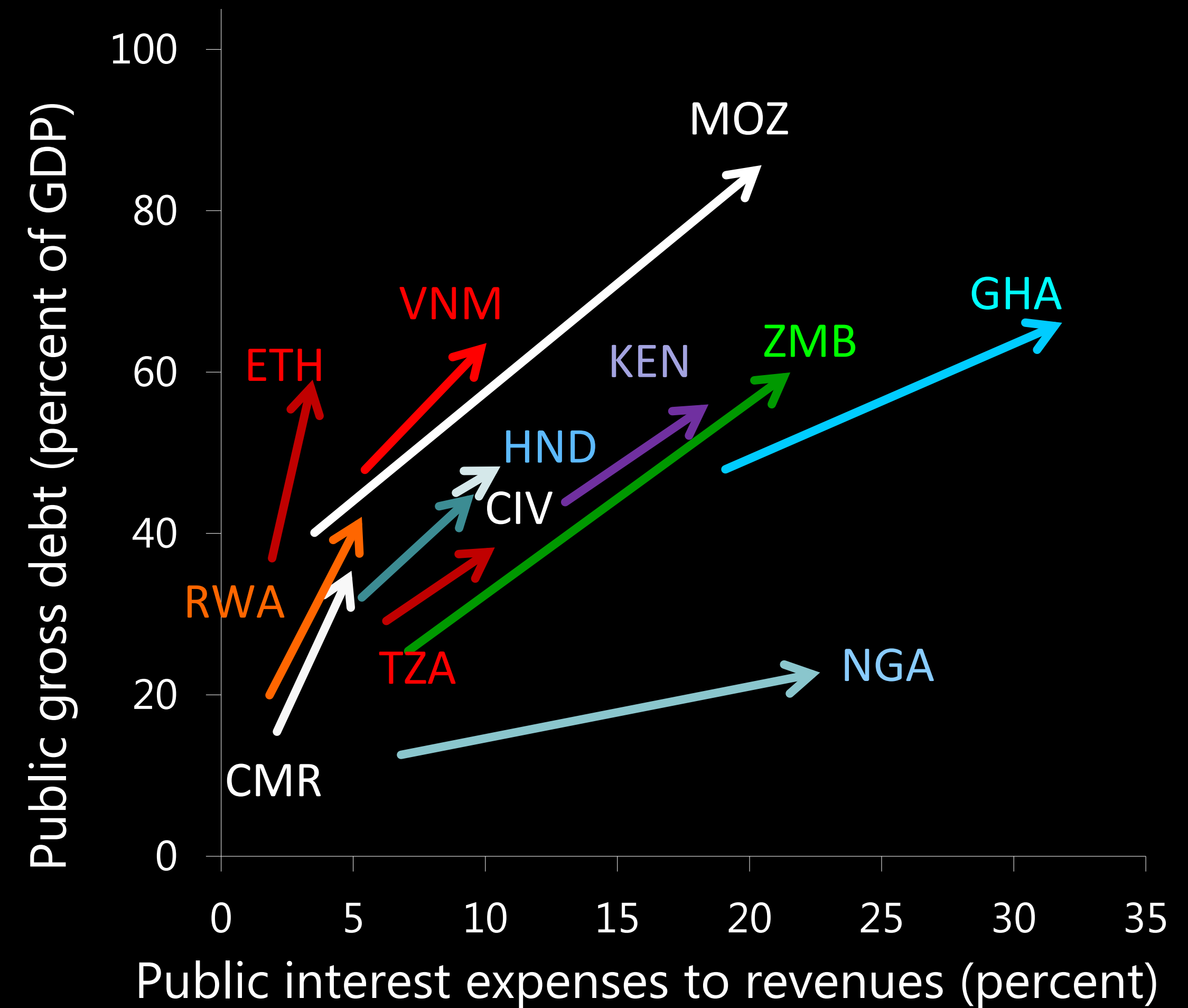
Low Income Countries: Benefits and Challenges

Bond Issuance Has Risen Sharply...



... Pushing Up Debt Burdens

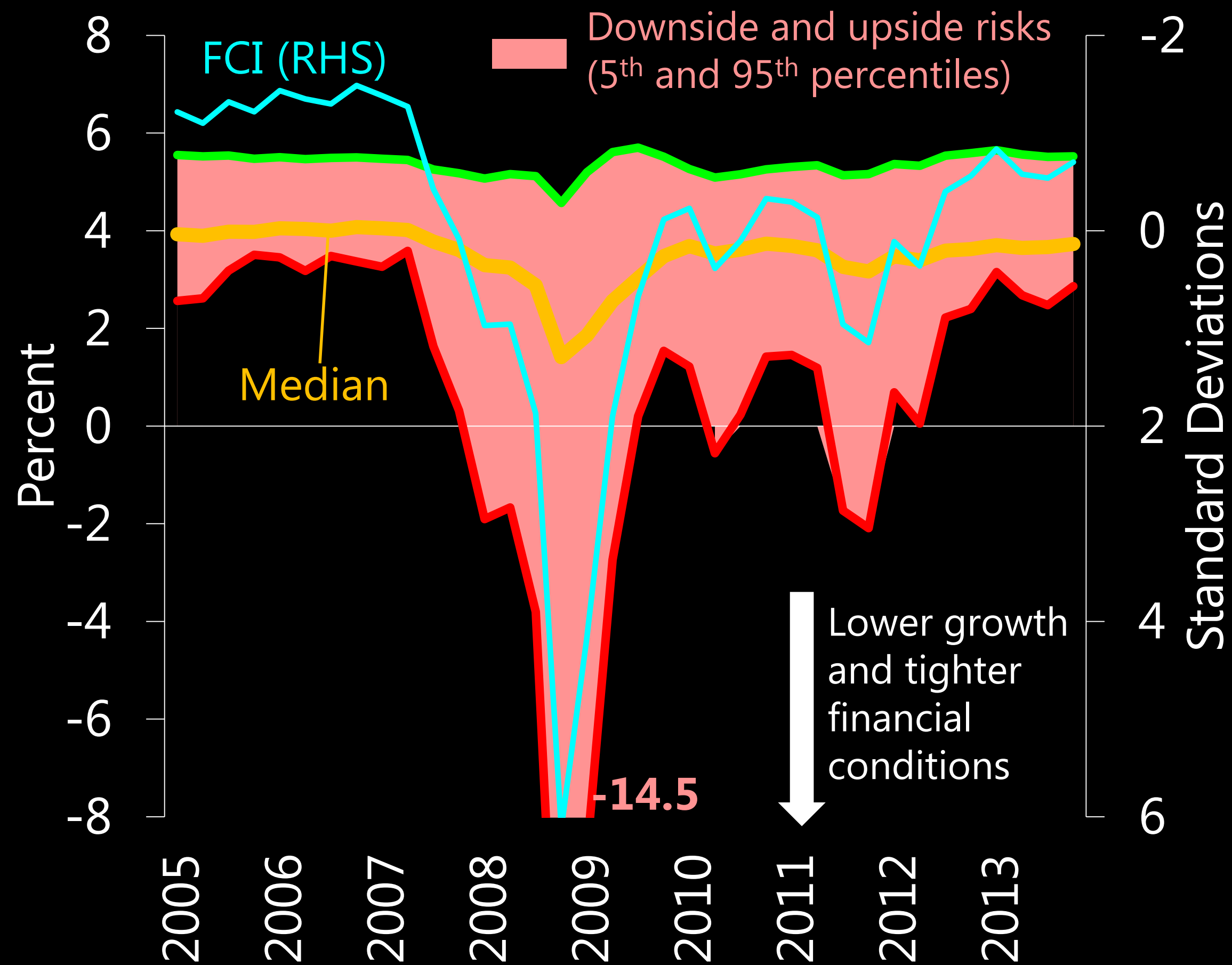
(Change From 2012 to 2018)



Is Growth At Risk?

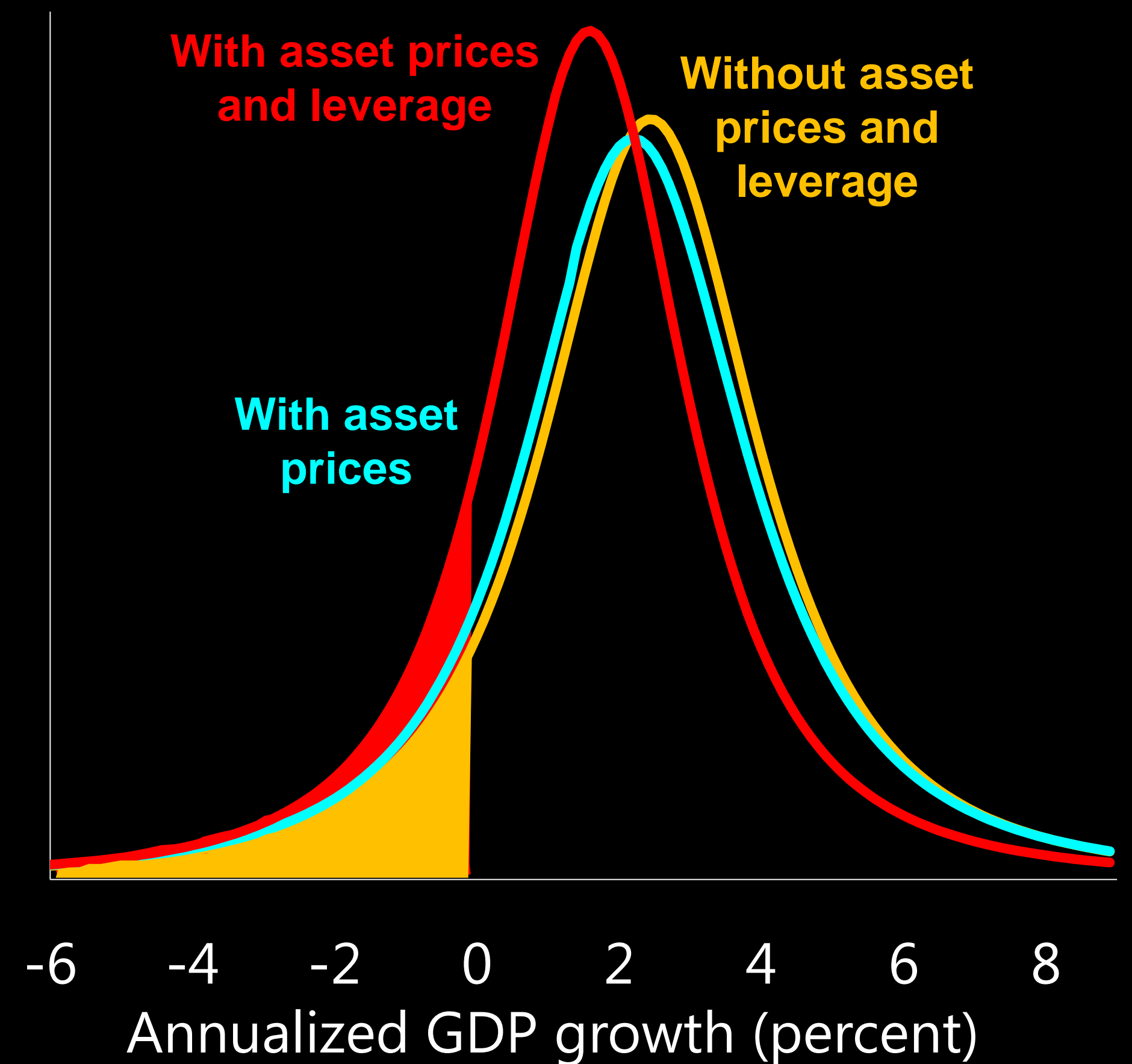
Growth-at-Risk

A Tightening of Global Financial Conditions Suggests An Increase In Global Economy Tail Risks



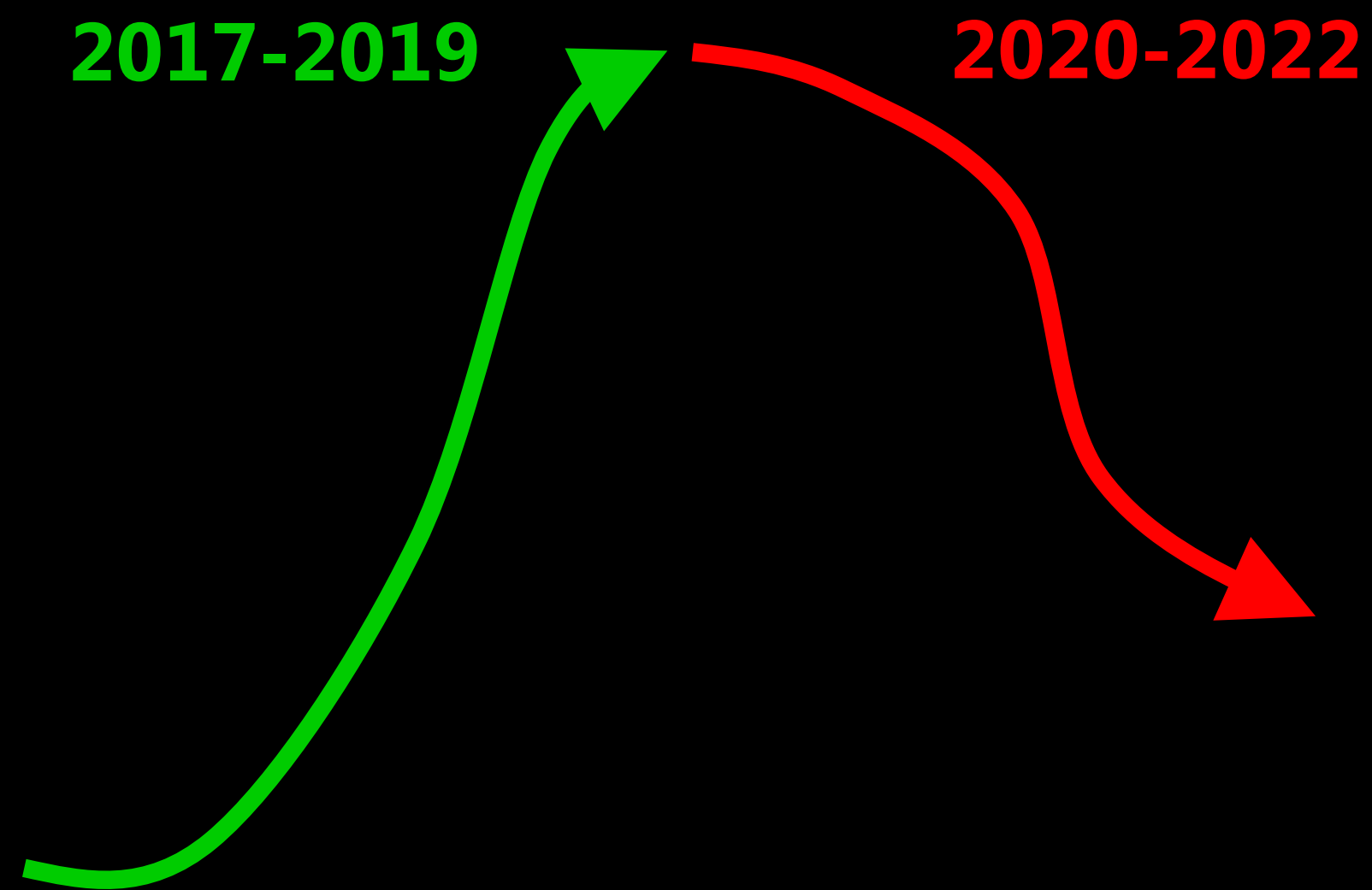
Rising Leverage Foresees a Riskier Outlook

(Probability Density Forecasts for GDP Growth Made One Year Earlier)



Could The Global Recovery Be Derailed?

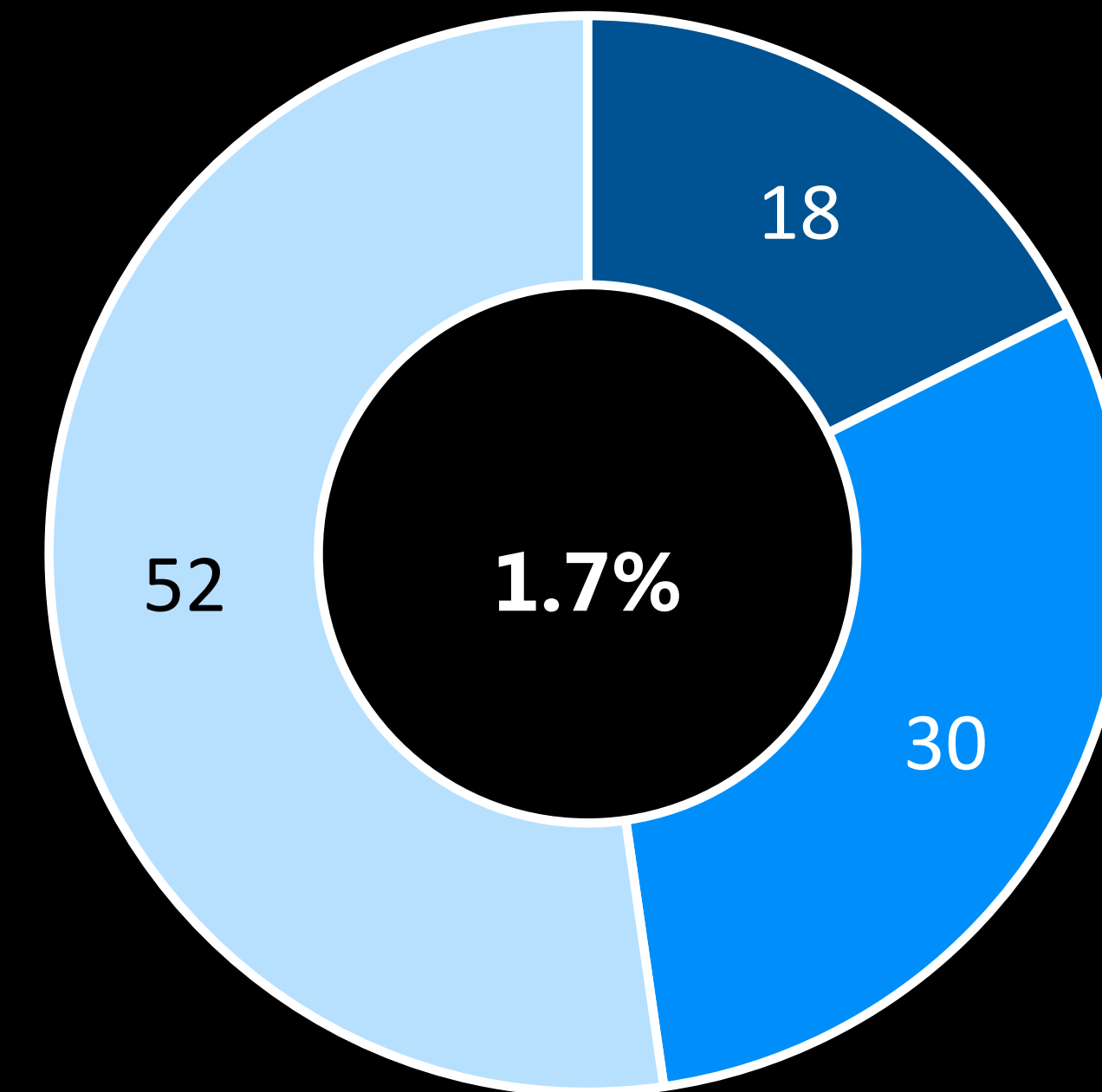
Downside Scenario



Continued search for yield
Spreads compressed
Low volatility
Increasing leverage

Increased risk aversion
Credit spreads decompress
Volatility shifts higher
Debt service pressures mount

Output Losses Are Substantial and Broad-Based (Percent of Countries; Output Loss Relative to the Baseline)



High Impact

Medium Impact

Low Impact

Beware Of Complacency

Conditions appear calm
on the surface...



...but vulnerabilities
are building
underneath...



...that could put
growth at risk

Policy Recommendations

Beware of complacency and safeguard against a build-up of financial vulnerabilities

- **Extend the perimeter of macroprudential policies**
- **EMs: Enhance financial sector resilience**
- **China: Rein in shadow credit and lower financial risks**
- **Ensure proactive oversight of bank business models**
- **Globally: Complete the financial regulatory reform agenda**