Macro-Finance during COVID-19

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Real GDP forecast, 2019-2021
(index; 2019Q1=100)

Sources: IMF, World Economic Outlook; and IMF staff calculations.
A Formidable Rebound in Asset Prices…

Asset Market Performance
(July 10, 2020)
... As Market Risk Sentiment Improved...

Risk assets have rallied as risk-premia compressed...

US Equities and Credit Indices
(Indexed to Jan 17, 2020)

... and credit spreads narrowed significantly from their earlier peaks

Change in Credit Spreads
(Basis points, since January 17, 2020)

- S&P 500
- Investment grade bond ETF
- High-yield bond ETF

United States
- High-yield corporate bonds
- Emerging market bonds
- Investment-grade corporate bonds

Euro area
- Sovereign
- Corporates

Increase to July
Increase to maximum in 2020
Aggregate assets of the G10 central banks have increased by more than $6 trillion since pandemic began...

G10 Central Bank Assets
(Trillions of US dollars)

US Federal Reserve
European Central Bank
Bank of Japan
Other G10 central banks

Selected Emerging Market Central Bank Government Bond Purchases (March – May 2020)
(Percent of GDP)

Poland
Philippines
Brazil
Thailand
Turkey
India
Indonesia
India
Malaysia
Colombia
Hungary
South Africa
Romania
Mexico

Note: G10 = Group of Ten; Other G10 countries = central banks in Canada, Sweden, Switzerland, and the United Kingdom.

Note: In some cases, central banks are purchasing other assets as well as government bonds.
Financial Conditions Have Improved

Global financial conditions have eased...

Global Financial Conditions Indices
(Standard deviations from mean)

- United States
- Euro area
- China
- Other advanced economies
- Other emerging market economies

... as interest rates have fallen and as market valuations have rebounded

Key Drivers of Global Financial Conditions Indices
(Standard deviations from mean)

- Interest rates
- EM external costs
- House prices
- Corporate valuations
- Index
But A Disconnect Between Markets and the Economy is A Vulnerability

In contrast to economic projections, markets are pricing in a sharp recovery in corporate earnings...

... with sectors seen benefitting from the strong policy response rallying the most.

S&P Consensus Earnings Forecasts
(USD; Percent)

US Stock Market Performance
(January 1, 2020 = 100)
Investor Sentiment Toward Emerging Markets Has Improved Somewhat

Portfolio flows into emerging markets have started to stabilize...

... while their funding costs, especially in local currency, have continued to decline
High Debt Levels Could Become Harder to Manage

Corporate and household debt burdens could become harder to manage under a severe economic downturn...

... as reflected in the rapid increase in corporate bond defaults at the highest pace since the GFC

Nonfinancial Private Sector Debt and Economic Growth Forecasts

Number of Corporate Bond Defaults

Corporate debt: 2019:Q4 (percent of GDP, left scale)
Household debt: 2019:Q4 (percent of GDP, left scale)
IMF 2020 economic growth forecast (percent, right scale)

Year to date
United States
Other advanced
Emerging market
Annual total (right scale)

Total for the year

0 20 40 60 80 100 120 140 160 180 200 220 240 260 280 300
2008 10 12 14 16 18 20

NLD CAN FRA CHN KOR AUS GER JPN ESP ITA TUR POL BRA RUS IND MEX

Corporate debt: 2019:Q4 (percent of GDP, left scale)
Household debt: 2019:Q4 (percent of GDP, left scale)
IMF 2020 economic growth forecast (percent, right scale)