

G20 Global Financial Stability Conference
Presentation by Felix Suntheim, IMF

Discussion of “Emerging Risks and Financial Stability: The Role of Nonbank Financial Intermediaries”

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Temporary funding shortages interrupt profitable investment.

Why prices change

Stronger growth can raise both yields and expected investment returns.

Inflation or fiscal concerns can raise costs without better returns.

All profit expectations influence equity prices.

How financing responds

More private bond holdings can raise the return investors require.

Short-term borrowing can lead to simultaneous asset sales.

Cash shortages can disrupt firms with sound prospects.

3 Fund Redemptions and Corporate Financing

01

Household consumption

A benefit of redemption

Lower income creates a need for cash.
Redemptions can sustain spending.
Many investors may need cash together.

02

Fund cash needs

A source of selling pressure

Corporate bonds may be costly to sell quickly.
Limited cash can force rapid bond sales.
Sales can raise corporate bond yields.

03

Corporate investment

A cost of tighter financing

New issuance and refinancing become harder.
Firms with little cash are more exposed.
Profitable projects may face funding gaps.

Choices that protect household consumption can also weaken business investment.

4 Hedge Fund Growth and Bank Connections

1 Why intermediation changes

Financing needs, portfolio preferences, and relative costs shape nonbank growth. Regulatory differences also matter.

2 Banks remain involved

Households can keep deposits while banks fund hedge funds. Banks continue to provide finance and bear risk.

3 Funding can contract together

Similar equity holdings can prompt simultaneous sales. Losses reaching lending banks may also reduce credit.

Different funding channels may narrow together in a downturn.

01 Risk sharing

International portfolio investment widens financing access and distributes country risks.

02 Common investors

Diversified portfolios can expose several countries to the same funding pressure.

03 Domestic buyers

Local losses or cash shortages can limit purchases when foreign investors sell.

04 Country conditions

Bond funds retrench more from countries with existing vulnerabilities.

Lower financing costs can coexist with greater downside risk to growth.

6 Implications for Consumption and Investment in Korea

01 Export demand

Firms may face weaker export demand and foreign withdrawals together.

02 Currency exposure

Depreciation may help exporters and raise import costs or the burden of unhedged foreign-currency debt.

03 Valuation gains

Valuation gains on foreign assets may accrue to different households from those under pressure.

04 Domestic demand

Borrowers may cut spending more than asset owners increase it.

Who receives the gains and bears the costs shapes consumption and investment.

01

Redemption terms

Align terms with asset liquidity

Reflect the time and cost of asset sales.
Use cash buffers and suitable liquidity tools.
Limit pressure on corporate bond financing.

02

Regulation

Apply consistent risk principles

Account for links between banks and nonbanks.
Include the benefits of capital and liquidity.
Judge costs in normal times and downturns.

03

Market support

Clarify policy responsibilities

Maintain the price stability objective.
Ease temporary market cash shortages.
Resolve losses and discourage excessive risk-taking.

G20 cooperation can connect information on borrowing and holdings across borders.

Felix's presentation provides a foundation for this macroeconomic interpretation.

① Nonbank finance expands funding options

Its benefits depend on how finance behaves over the business cycle.

② Simultaneous withdrawals can deepen downturns

Banks, funds, and international investors may tighten financing together.

③ Policy should support consumption and investment

Limit the risk that temporary funding shortages interrupt productive activity.