

OCTOBER 2020—GLOBAL FINANCIAL STABILITY REPORT

**Liquidity Strains Cushioned By A Powerful Set Of Policies—
Online Boxes 3.1–3.2**

The following two Online Boxes provide additional analyses that complement Chapter 3 of the October 2020 Global Financial Stability Report:

- **Online Box 3.1. Group of Seven Policy Measures that Supported Corporate Funding during the Containment Phase of the COVID-19 Pandemic**

Policymakers took unprecedented measures to respond to the economic and financial stress caused by the COVID-19 pandemic. Online Box 3.1 briefly describes key policies announced by the G7 countries that directly and indirectly supported firms' ability to obtain funding during the containment phase of the pandemic.

- **Online Box 3.2. Corporate Debt Financing Choice and Firm Characteristics**

Online Box 3.2 investigates how firm characteristics affected firms' choice of debt financing instrument (bond or loan) during the containment phase of the COVID-19 crisis and how this compares to the global financial crisis and normal times.

Online Box 3.1. Group of Seven Policy Measures that Supported Corporate Funding during the Containment Phase of the COVID-19 Pandemic

In response to the COVID-19 pandemic and the associated restrictions and closures imposed to contain the spread of the virus, Group of Seven (G7) policymakers announced a wide range of measures to support firms, households, financial markets, and financial institutions. This box focuses on key measures that supported corporate funding directly or indirectly.

Panel 1 of Online Box Figure 3.1.1 shows the number of key policy announcements and policy announcement days from February through June 2020 across the G7 economies—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The size and speed of policy action were unprecedented, with the number of interventions skyrocketing in March. Policymakers often announced multiple measures on a single day, such that the total number of measures greatly exceeds the number of days with policy announcements.

Panel 2 of Online Box Figure 3.1.1 plots the number of announcements, by category and country. Early central bank intervention focused on market liquidity and policy rate cuts, and early government actions included the provision of loans and guarantees to businesses as well as measures to directly support corporate cash flows. In the United States, the Federal Reserve also reactivated several programs implemented during the global financial crisis, such as the Term Asset-Backed Securities Loan Facility and the Commercial Paper Funding Facility. In addition, G7 central banks significantly expanded asset purchase programs and, to support bank lending, supervisors most commonly released countercyclical capital buffers and introduced restrictions on payouts to shareholders.

Several central bank responses to the COVID-19 crisis have differed from those in response to the 2007–09 global financial crisis. At that time, when the financial system was impaired, central banks supported selected markets and intermediaries to keep credit flowing to businesses. In response to the COVID-19 crisis, central banks have intervened more directly to ensure firms' ability to obtain funding and to promote financial and macroeconomic stability in the sectors most exposed to the pandemic. Interventions have included the announcement of purchase of corporate bonds in the primary and secondary markets as well as the creation of facilities to stimulate lending to nonfinancial firms. By effectively stepping in as buyers of last resort in these markets and helping contain upward pressure on the cost of credit, central banks have ensured firms' continued access to credit.

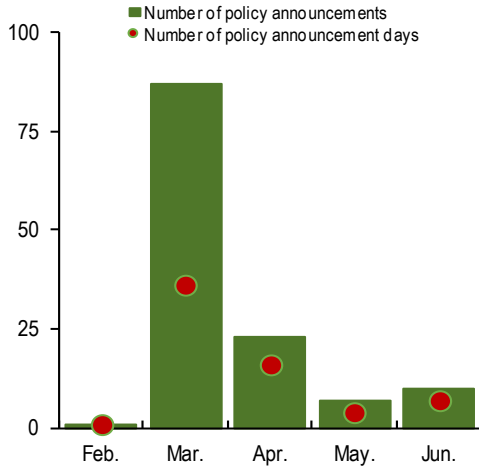
Given that the COVID-19 crisis has had a heterogeneous effect across industrial sectors and firms, a critical challenge has been to target credit support where it is most needed. Governments have implemented a variety of programs to facilitate access to credit for small and medium enterprises. According to the Yale Program on Financial Stability, G7 economies have committed more than \$2.7 trillion in funding for credit support programs for those enterprises, with a total utilization rate of nearly 50 percent as of the end of July.

This box was prepared by Andrea Deghi.

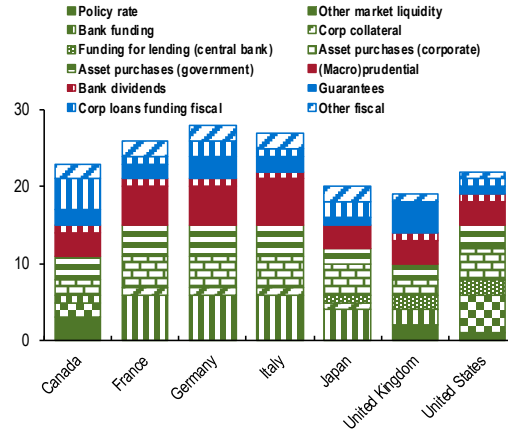
Online Box Figure 3.1.1. Key Policy Announcements in Group of Seven Economies, February–June 2020

The number of policy announcements skyrocketed after the World Health Organization declared COVID-19 a pandemic in March ... and a variety of economic policies were introduced that supported the corporate sector.

1. Timeline of Key Policy Announcements



2. Number of Key Announcements by Country



Sources: Yale School of Management Program on Financial Stability; and IMF COVID-19 Policy Tracker. Corp = corporate.

Online Box 3.2. Corporate Debt Financing Choice and Firm Characteristics

To investigate firms’ preferred source of debt financing—that is, whether to issue a bond or take out a loan—and to examine whether the decision was affected differently by the COVID-19 crisis and the global financial crisis, a logit analysis is conducted following Adrian, Colla, and Shin (2013).^{1/} The sample consists of US nonfinancial firms that issued at least one corporate bond or took out one syndicated loan between the first quarter of 2000 and the second quarter of 2020 (Online Box Figure 3.2.1).

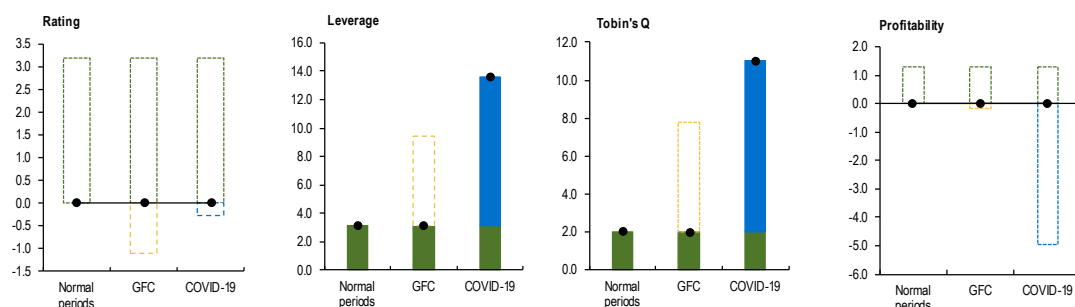
The likelihood of obtaining funding from the bond market increases with leverage and investment opportunities (measured by Tobin’s Q) during both crisis and non-crisis times. The relationship with these two variables became stronger during the containment phase of the COVID-19 crisis, suggesting that the US bond market became relatively more attractive for firms with high leverage and better investment opportunities. By contrast, firm rating and profitability do not seem to play a role.

This box was prepared by Tomohiro Tsuruga.

1/ See Online Annex 3.2 for methodological details

Online Box Figure 3.2.1. Impact of Selected Firm Characteristics on the Choice of Bond versus Loan Issuance

(Change in probability of issuing a bond, percentage points)



Sources: Dealogic; SNL Financial; and IMF staff calculations.

Note: Plots show the effect of an increase by one standard deviation of the value of a firm characteristic on the probability of issuing a bond (versus a loan) during a quarter for a firm with characteristics equal to the sample mean. Rating is a scaled indicator that ranges from 1 (default) to 22 (AAA). Leverage is total debt (the sum of current liabilities and long-term debt) divided by assets. Tobin’s Q is the market value of equity plus the book value of total debt divided by the book value of assets. Profitability is the ratio of operating income before depreciation to total assets. All characteristics are lagged by one quarter. Green bars indicate the estimates during the non-crisis period defined as the full sample period excluding the GFC (2007:Q2–2009:Q2) and COVID-19 periods (2020:Q1–2020:Q2). Yellow and blue bars indicate the changes in the estimates (relative to the non-crisis period) during the GFC and the COVID-19 period, respectively. The net effect is indicated by a black dot. If statistically insignificant, the net effect is assumed to be zero. Colored bars indicate significance at the 10 percent level. Empty bars indicate lack of statistical significance. See Online Annex 3.2 for methodological details. GFC = global financial crisis.

Reference

Adrian, Tobias, Paolo Colla, and Hyun Song Shin. 2013. “Which Financial Frictions? Parsing the Evidence from the Financial Crisis of 2007 to 2009.” *NBER Macroeconomics Annual* 27 (1): 159–214.