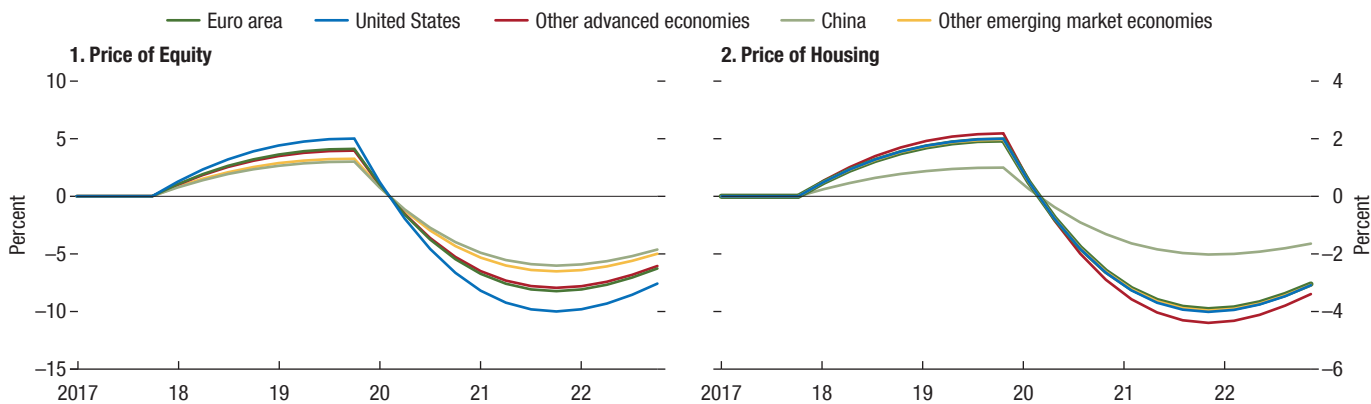
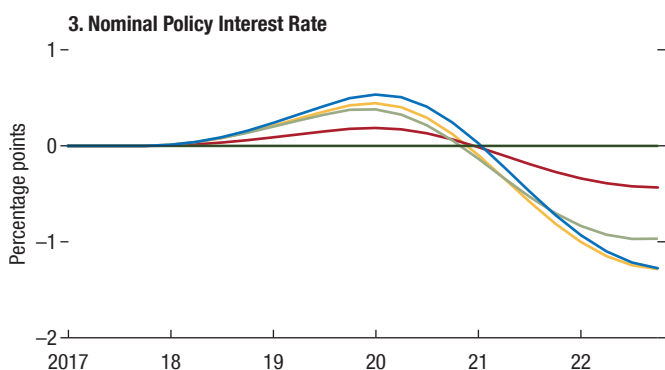


Figure 1.30. Global Financial Dislocation Scenario

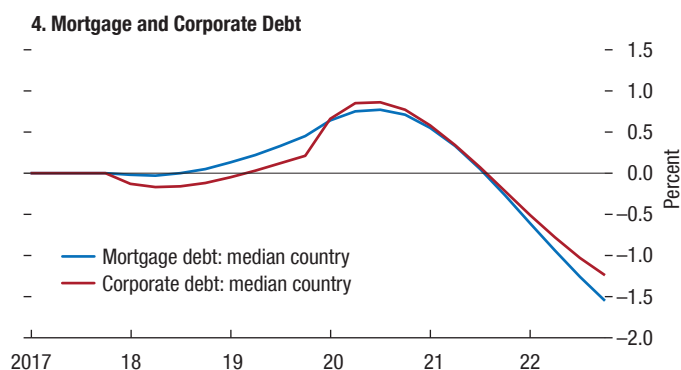
Financial stability risks build up for two more years, as equity and house prices continue to rise amid low volatility and narrow spreads, followed by an eventual sharp repricing.



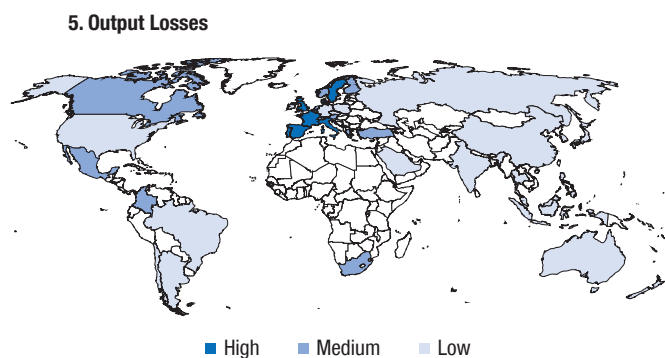
Monetary policy responses are limited by policy space in some countries.



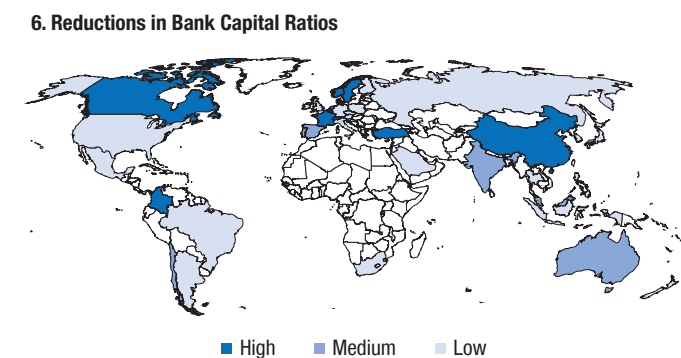
A decompression of risk premiums leads to an abrupt deleveraging.



Output losses are broad-based.



Rising defaults reduce capital at banks.



Source: IMF staff estimates.

Note: The variables in all panels are expressed as deviations from baseline. In panel 5, countries are shaded according to the following magnitudes of output losses: (1) smaller than 1.8 percent of GDP ("low impact"), (2) between 1.8 percent and 2.3 percent of GDP ("medium impact"), and (3) greater than 2.3 percent of GDP ("high impact"). In panel 6, the thresholds for reductions in bank capital ratios are (1) smaller than 0.625 percentage points ("low impact"), (2) between 0.625 and 0.675 percentage points ("medium impact"), and (3) greater than 0.675 percentage points ("high impact").