

**FOR  
INFORMATION**

FO/DIS/20/167

July 24, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Global Risk Assessment Matrix—Update**

Board Action:	Executive Directors' <b>information</b>
Publication:	No, as this is an internal staff exercise
Questions:	Ms. Hlatshwayo, SPR (ext. 34775) Mr. Roitman, SPR (ext. 38746)



## Global Risk Assessment Matrix (July 24, 2020)<sup>1</sup>

Risks	Likelihood
<b>Conjunctural shocks and scenario</b>	
<b>Unexpected shift in the Covid-19 pandemic.</b> <ul style="list-style-type: none"> <li>▪ <b>Downside.</b> The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks leading to a repricing of risk assets, unmasking of debt-related vulnerabilities, and weakening banks and nonbank financial intermediaries—forcing them to reduce credit (further weighing on growth). Financing difficulties extend to vulnerable sovereigns, leading to cascading debt defaults, capital outflows, depreciation pressures, and in some cases inflation. Pandemic-prompted protectionist actions (e.g., export controls) reemerge, disrupting trade and global value chains.</li> <li>▪ <b>Upside.</b> Alternatively, recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.</li> </ul>	<div>High</div> <div>Low</div>
<b>Widespread social discontent and political instability.</b> Social tensions erupt as the pandemic and inadequate policy response cause economic hardship (including unemployment, higher incidence of poverty, and shortages and higher prices of essentials) and exacerbate preexisting socioeconomic inequities. Economic activity is disrupted. Growing political polarization and instability (e.g., contested elections) weaken policy-making and confidence.	High
<b>Oversupply and volatility in the oil market.</b> Supply increases following OPEC+ disagreements and lower demand keep energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	Medium
<b>Intensified geopolitical tensions and security risks</b> (e.g., in response to pandemic) cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence.	High
<b>Structural risks</b>	
<b>Accelerating de-globalization.</b> Geopolitical competition and fraying consensus about the benefits of globalization lead to further fragmentation. Reshoring and less trade reduce potential growth.	High
<b>Cyber-attacks</b> on critical global infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium
<b>Higher frequency and severity of natural disasters related to climate change</b> cause severe economic damage to smaller economies susceptible to disruptions (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).	Medium/ Low

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **Please consult the G-RAM operational guidance on the [SPR Risk Unit website](#).**