Corporate cash holdings are tapering … 

1. Corporate Cash Holdings on Balance Sheet

- Cash (trillions of U.S. dollars, left scale)
- Cash (percent of assets, right scale)

Net equity financing has been falling the past four decades, as debt finance has continued to rise.

3. Corporate Liabilities and Net Equity Issuance
   (Percent of assets)

Gross equity issuance has abated, despite favorable valuations …

5. Corporate Sector Gross Equity Issuance
   (Billions of U.S. dollars, unless otherwise stated)

… as profits recede from a high level.

2. Corporate Profits
   (Percent of GDP)

A sharp improvement in bank equity valuations may portend stronger willingness to lend.

4. Bank Equities and Corporate Lending

… while a lower cost of equity capital could boost business investment (and, eventually, debt).

6. Illustrative Impacts of Improving Equity Sentiment
   (Percent deviation from baseline)

Sources: Bloomberg L.P.; Dealogic; Federal Reserve; Morgan Stanley Capital International; Standard and Poor’s (S&P); Vitek 2017; and IMF staff estimates.

Note: In panel 4, the series for lending is lagged 12 months. Bank balance sheet improvements are modeled using an equivalent decrease in the share of bank capital devoted to lending, phased in over five years. Equity risk premium compression in panel 6 consists of a 10 percent increase in the real equity price, phased in over one year. Shaded areas represent economic recessions. P/E = price-to-earnings ratio.