

PREFACE

The *Global Financial Stability Report* (GFSR) assesses key risks facing the global financial system. In normal times, the report seeks to play a role in preventing crises by highlighting policies that may mitigate systemic risks, thereby contributing to global financial stability and the sustained economic growth of the IMF's member countries.

The current report finds that short-term risks to global financial stability have abated since April 2016. The rise of commodity prices from their lows, along with the ongoing adjustments in emerging markets, has supported a recovery in capital flows. In advanced economies, weaker growth has been mitigated by the prospect of further monetary accommodation. Despite this decrease in short-term risk, the report finds that medium-term risks continue to build. The political climate is unsettled in many countries, making it more difficult to tackle legacy problems. Financial institutions in advanced economies face a number of structural and cyclical challenges. Corporate leverage in many emerging market economies remains high and would fall only gradually under the report's baseline scenario. Policymakers need a more potent and balanced policy mix to deliver a stronger path for growth and financial stability. There is an urgent need to raise global growth, strengthen the foundations of the global financial system, and bolster confidence. The report also examines how the rise of nonbank financing has altered the impact of monetary policy and finds that the fears of a decline in the effectiveness of monetary policy are unfounded. It appears that the transmission of monetary policy is in fact stronger in economies with larger nonbank financial sectors. Finally, the report examines the link between corporate governance, investor protection, and financial stability in emerging market economies. It finds that the improvements over the past two decades have helped bolster the resilience of their financial systems. These benefits strengthen the case for further reform.

The analysis in this report has been coordinated by the Monetary and Capital Markets (MCM) Department under the general direction of Ratna Sahay, Acting Director. The project has been directed by Peter Dattels and Dong He, both Deputy Directors, as well as by Gaston Gelos and Matthew Jones, both Division Chiefs. It has benefited from comments and suggestions from the senior staff in the MCM Department.

Individual contributors to the report are Ali Al-Eyd, Adrian Alter, Nicolás Arregui, Mohamed Bakoush, Luis Brandão-Marques, John Caparusso, Stephen Cecchetti, Sally Chen, Yingyuan Chen, Fabio Cortes, Cristina Cuervo, Martin Edmonds, Selim Elekdag, Jennifer Elliott, Michaela Erbenova, Alan Xiaochen Feng, Caio Ferreira, Rohit Goel, Lucyna Gornicka, Xinhao Han, Thomas Harjes, Sanjay Hazarika, Geoffrey Heenan, Dyna Heng, Eija Holttinen, Henry Hoyle, Hibiki Ichiue, Viacheslav Ilin, Mustafa Jamal, Andy Jobst, David Jones, Oksana Khadarina, Tak Yan Daniel Law, Yang Li, Peter Lindner, Nicolás Magud, Sherheryar Malik, Rebecca McCaughrin, Naoko Miake, Win Monroe, Machiko Narita, Evan Papageorgiou, Vladimir Pillionca, Lev Ratnovski, Luca Sanfilippo, Dulani Senevirante, Juan Solé, Ilan Solot, Garence Staraci, Nobuyasu Sugimoto, Narayan Suryakumar, Shamir Tanna, Laura Valderrama, Francis Vitek, Dmitry Yakovlev, Jeffrey Williams, Nicholas Wood, and Rasool Zandvakil. Magally Bernal, Carol Franco, Lilit Makaryan, Juan Rigat, and Adriana Rota were responsible for word processing.

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