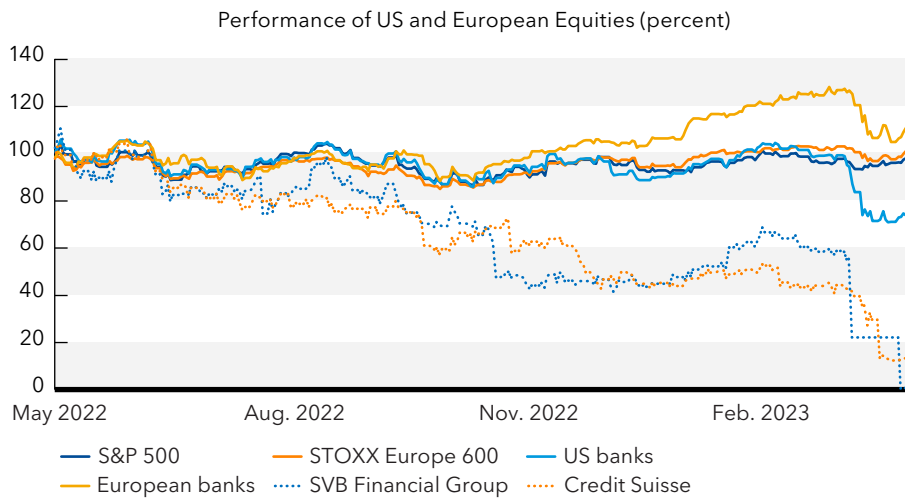
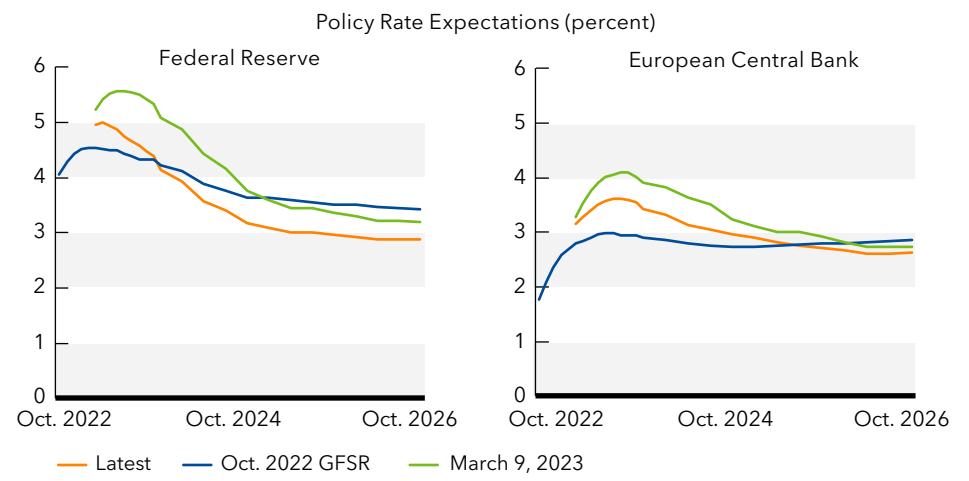


A FINANCIAL SYSTEM TESTED BY HIGHER INFLATION AND INTEREST RATES

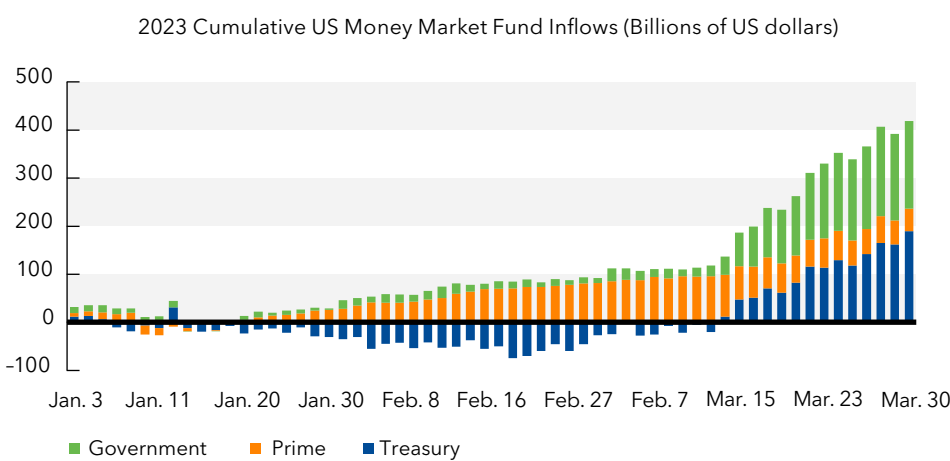
The failure of two banks in the United States and deposit flight from a major Swiss bank led to broader market declines...



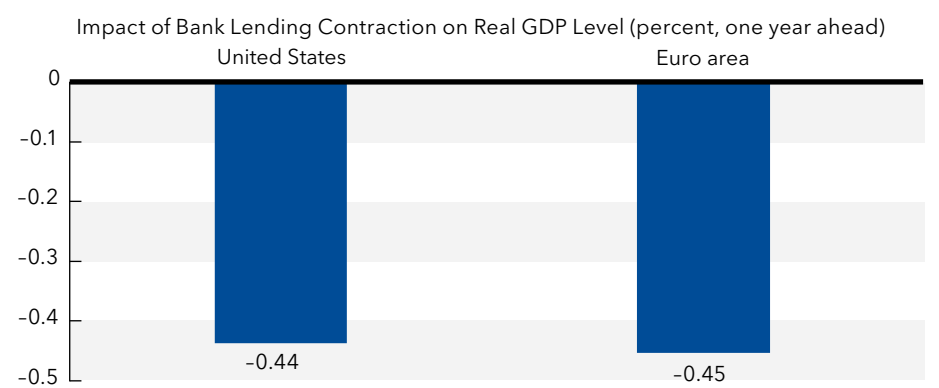
...a stark repricing of monetary policy expectations...



...a flight to the safety of government securities...

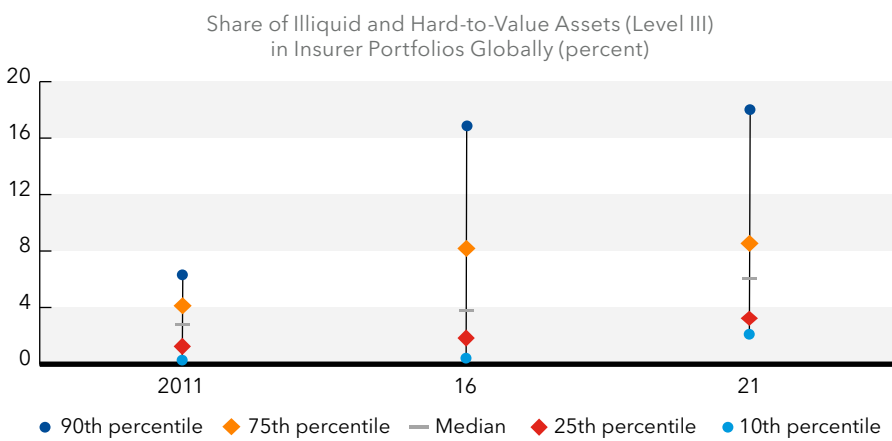


...and a potentially significant fall in growth, with possible spillovers to emerging markets

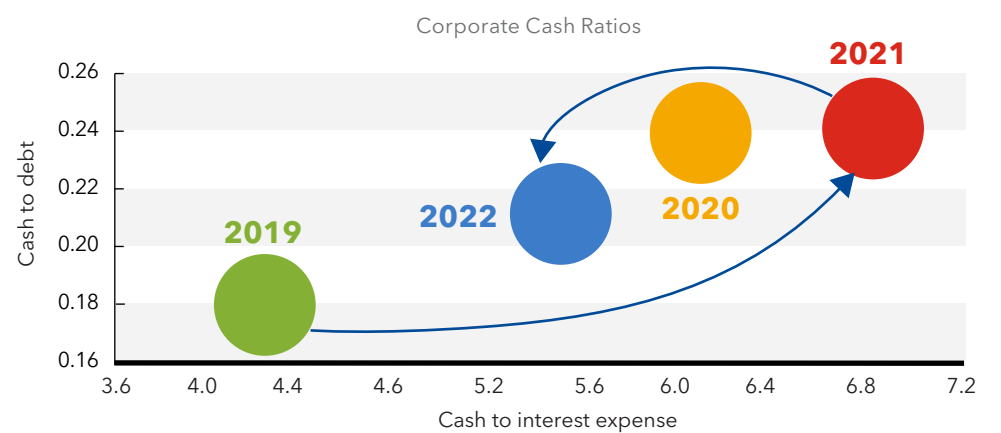


RELATED RISKS ARE ALSO BUILDING OUTSIDE THE BANKING SECTOR

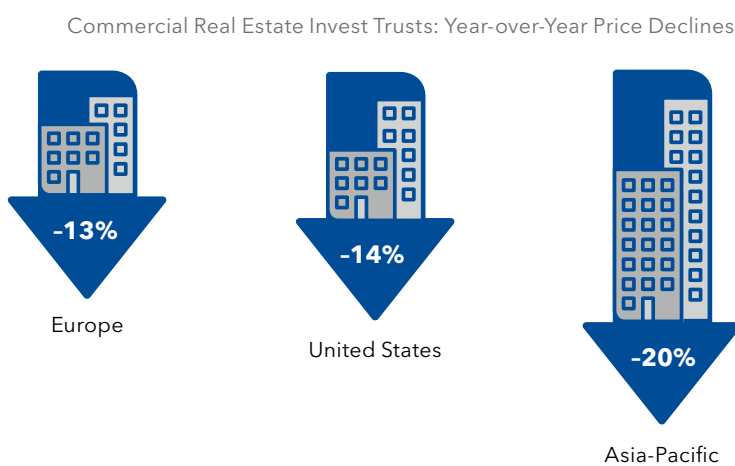
Reaching for yield, nonbanks have increased their exposure to illiquid credit investments



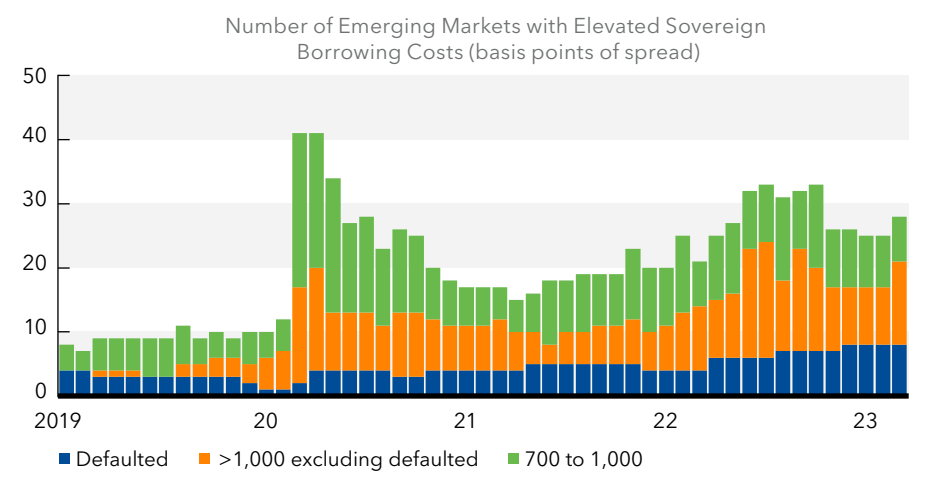
Corporations built strong cash buffers after the COVID-19 pandemic, but these are now declining across the world



Rising financing costs and falling demand are pressuring commercial real estate markets



Many smaller emerging and frontier markets face large sovereign debt risks



FORCEFUL POLICYMAKER RESPONSES HAVE STEMMED SYSTEMIC RISKS, BUT FURTHER ACTIONS ARE NEEDED TO BUILD MARKET CONFIDENCE



Central Banking

- Central banks have sufficient tools to separate monetary policy objectives from financial stability goals and should continue to address inflationary pressures
- If financial strains intensify significantly and threaten the health of the financial system amid high inflation, policymakers should act swiftly to prevent any systemic events
- If policymakers need to adjust the policy stance, they should clearly communicate their continued resolve to bring inflation back to target as soon as financial stress subsides



Financial Regulation

- Recent banking sector turmoil has highlighted internal risk management failures and supervisory lapses
- Supervisors should focus on interest rate and liquidity risks in banks and work to strengthen regulation and close data gaps in nonbank financial intermediaries
- Resolution regimes should be enhanced to better facilitate resolution of systemic banks without risking public funds



Emerging Markets

- The IMF's Integrated Policy Framework can help to manage capital flow and exchange rate volatility as part of a plan that addresses underlying macroeconomic imbalances and allows for needed adjustments
- Country authorities should enhance efforts to contain risks associated with high debt vulnerabilities
- Bilateral and private sector creditors should coordinate on preemptive restructuring in cases of debt distress