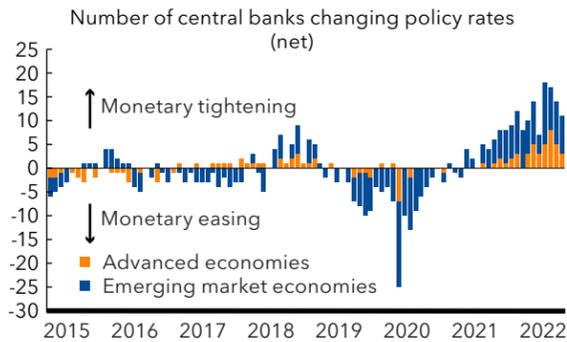


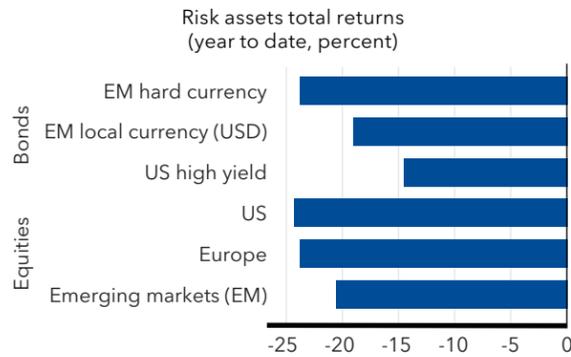
Global financial stability risks are rising amid historically high inflation and heightened uncertainty

## MACRO-FINANCIAL BACKGROUND

### Central banks are aggressively hiking rates to contain high inflation



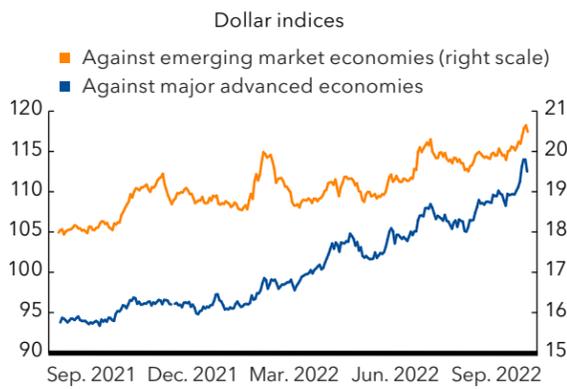
### Stock and bond prices have fallen



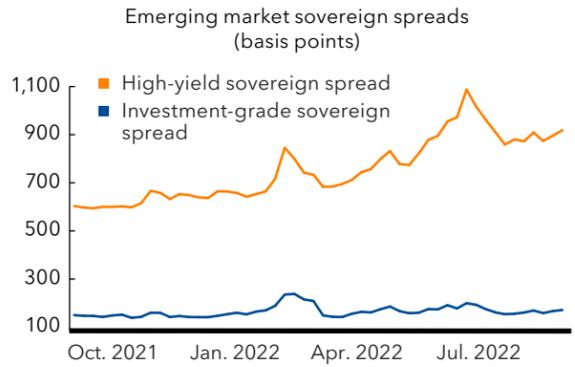
### Interest rate volatility has risen exacerbated by low liquidity



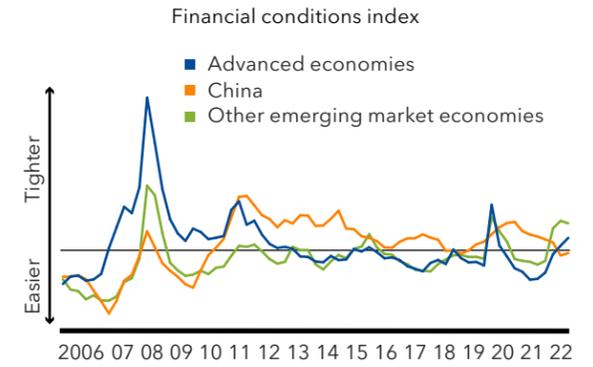
### The US dollar has appreciated sharply



### Lower-rated emerging markets are facing high borrowing costs

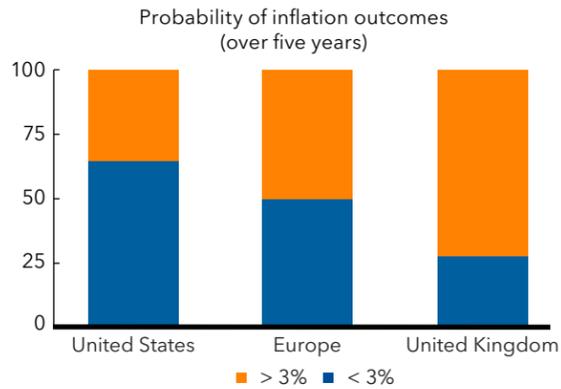


### Financial conditions have tightened in most economies

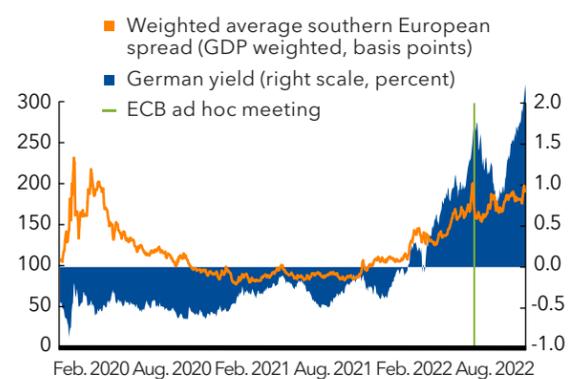


## KEY FINANCIAL STABILITY RISKS AHEAD

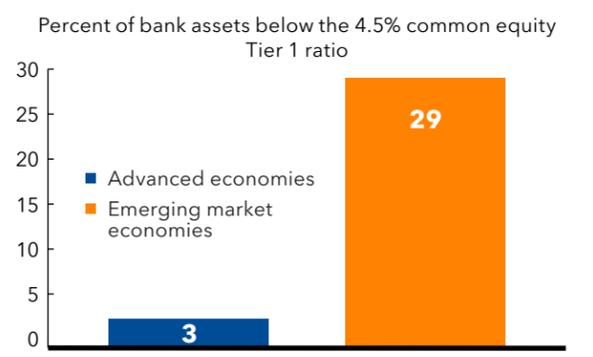
### Investors expect inflation to remain elevated



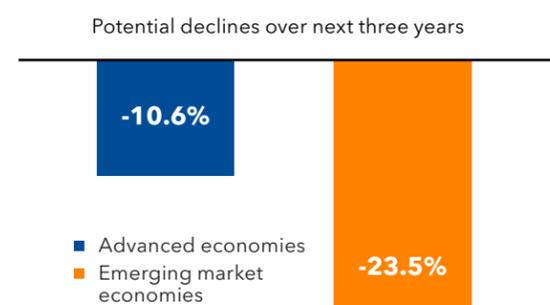
### Spreads in certain euro area countries are rising



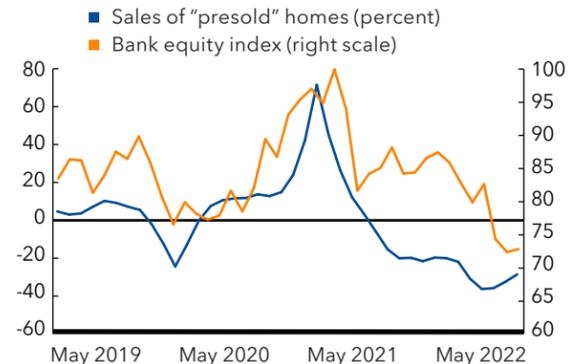
### Global stress test points to bank vulnerabilities in emerging markets



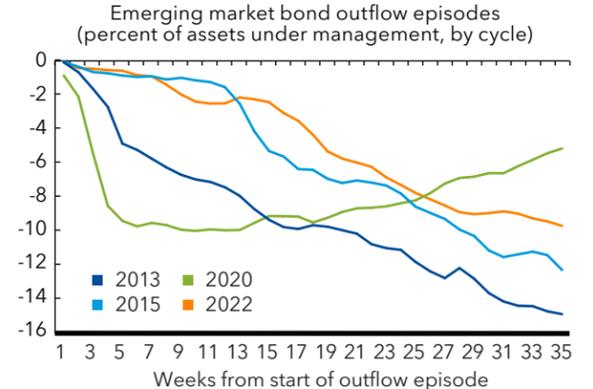
### Housing markets are at risk of declines in many economies



### China's housing risks could spill over to its banking sector



### Emerging market bond funds have seen large outflows



## POLICIES

### Price stability is crucial for maintaining macro-financial stability

A tightening in financial conditions is necessary to restore price stability



Central banks should act resolutely to credibly bring inflation back to target and avoid a more painful and disruptive subsequent tightening

Policymakers need to communicate clearly their policy function, their commitment to achieving their objectives, and the need to further normalize policy



Policymakers should contain further buildup of financial vulnerabilities and adjust selected macroprudential tools as needed



Authorities in emerging and frontier markets should reduce risks from high debt vulnerabilities and ensure adequate bank capital buffers



Authorities should facilitate the efficient and orderly restructuring of distressed property developers in China