Global financial conditions have tightened and downside risks to the economic outlook increased, though no material systemic event affecting financial institutions or markets has materialized so far.

Transmission Channels of the War in Ukraine

Direct and indirect exposures

Commodity price shock and near-term inflation concerns

Funding and liquidity stress

Financial conditions tightening and spillovers to emerging markets

Energy security vs energy transition

Challenging Trade-Offs amid Uncertain Geopolitics

- Central banks should act decisively to prevent inflation pressure from becoming entrenched and avoid an unmooring of inflation expectations, while avoiding a disorderly tightening of financial conditions that would jeopardize the post-pandemic economic recovery.
- Policy normalization in emerging markets should continue based on country-specific assessments of inflation, economic outlook.
- Regulators should assess the implications of the elevated volatility in commodity markets on market functioning and risk management.
- Policymakers should intensify their efforts to implement the 2021 United Nations Climate Change Conference (COP26) road map while taking appropriate steps to address energy security concerns.


Note: GFSR = Global Financial Stability Report; NBFIs = Nonbank financial intermediaries.