A FINANCIAL SYSTEM TESTED BY HIGHER INFLATION AND INTEREST RATES

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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

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

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

**Central Banking**

**Financial Regulation**

**Emerging Markets**

**Key Highlights**

**Central Banking**

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**Financial Regulation**

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- Resolution regimes should be enhanced to better facilitate resolution of systemic banks without risking public funds.

**Emerging Markets**

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- 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.


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

Many smaller emerging and frontier markets face large sovereign debt risks

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<th>Country Authority</th>
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<td>Enhance efforts to contain risks associated with high debt vulnerabilities.</td>
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**Features**

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**Graphs**

- 2021 Cumulative US Money Market Fund Inflows (Billions of US dollars)
- Corporate Cash Ratios
- Share of Illiquid and Hard-to-Value Assets (Level III) in Insurer Portfolios Globally (percent)
- Commercial Real Estate Invest Trusts: Year-over-Year Price Declines