

## 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 global financial system is currently undergoing a number of challenging transitions on the path to greater stability. These transitions are far from complete, and stability conditions are far from normal. For advanced and emerging market economies alike, a successful shift from liquidity-driven to growth-driven markets requires a number of elements. The current report discusses these elements, including a normalization of U.S. monetary policy that avoids financial stability risks; financial rebalancing in emerging market economies amid tighter external financial conditions; further progress in the euro area's transition from fragmentation to robust integration; and the successful implementation of Abenomics in Japan to deliver sustained growth and stable inflation. The report also examines how changes in the investor base and financial deepening affect the stability of portfolio flows and asset prices in emerging market economies. The findings suggest that changes in the composition of investors are likely to make portfolio flows to emerging market economies more sensitive to global financial conditions; however, strengthening local financial systems reduces the sensitivity of domestic financial asset prices to global financial shocks. Last, the report looks at the issue of institutions deemed too important to fail and provides new estimates of the implicit funding subsidy received by systemically important banks. The report finds that this subsidy is still sizable and calls for a strengthening of financial reforms.

The analysis in this report has been coordinated by the Monetary and Capital Markets (MCM) Department under the general direction of José Viñals, Financial Counsellor and Director. The project has been directed by Jan Brockmeijer and Peter Dattels, 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.

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This particular edition of the GFSR draws in part on a series of discussions with banks, securities firms, asset management companies, hedge funds, standards setters, financial consultants, pension funds, central banks, national treasuries, and academic researchers.

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