

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. Six years after the start of the crisis, the global economic recovery continues to rely heavily on accommodative monetary policies in advanced economies. Monetary accommodation remains critical in supporting the economy, by encouraging economic risk taking in the form of increased real spending by households and greater willingness to invest and hire by businesses. However, prolonged monetary ease may also encourage excessive financial risk taking.

The current report finds that although economic benefits are becoming more evident in some economies, market and liquidity risks have increased to levels that could compromise financial stability if left unaddressed. The best way to safeguard financial stability and improve the balance between economic and financial risk taking is to put in place policies that enhance the transmission of monetary policy to the real economy—thus promoting economic risk taking—and address financial excesses through well-designed macroprudential measures. The report also examines shadow banking developments around the globe, assessing the role of common drivers behind different forms of shadow banking activities, discussing risks and benefits, and advocating a more encompassing, macroprudential approach to regulate and monitor the sector. Last, the report looks at the contribution of executive compensation and governance—board structure, business culture, and risk management—to risk taking by banks. It endorses financial reforms that align compensation with risk and increase its deferral, and proposes measures to improve bank governance.

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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