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 current report finds that short-term risks to global financial stability have abated since April 2016. The rise of commodity prices from their lows, along with the ongoing adjustments in emerging markets, has supported a recovery in capital flows. In advanced economies, weaker growth has been mitigated by the prospect of further monetary accommodation. Despite this decrease in short-term risk, the report finds that medium-term risks continue to build. The political climate is unsettled in many countries, making it more difficult to tackle legacy problems. Financial institutions in advanced economies face a number of structural and cyclical challenges. Corporate leverage in many emerging market economies remains high and would fall only gradually under the report’s baseline scenario. Policymakers need a more potent and balanced policy mix to deliver a stronger path for growth and financial stability. There is an urgent need to raise global growth, strengthen the foundations of the global financial system, and bolster confidence. The report also examines how the rise of nonbank financing has altered the impact of monetary policy and finds that the fears of a decline in the effectiveness of monetary policy are unfounded. It appears that the transmission of monetary policy is in fact stronger in economies with larger nonbank financial sectors. Finally, the report examines the link between corporate governance, investor protection, and financial stability in emerging market economies. It finds that the improvements over the past two decades have helped bolster the resilience of their financial systems. These benefits strengthen the case for further reform.

The analysis in this report has been coordinated by the Monetary and Capital Markets (MCM) Department under the general direction of Ratna Sahay, Acting Director. The project has been directed by Peter Dattels and Dong He, 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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Gemma Diaz from the Communications Department led the editorial team and managed the report’s production with support from Michael Harrup, Linda Keen, and Joe Procopio, and editorial assistance from Lorraine Coffey, Gregg Forte, Susan Graham, Lucy Scott Morales, Nancy Morrison, Annerose Wambui Waithaka, Katy Whipple, AGS (an RR Donnelley Company), and EEI Communications.

We are thankful to the Research Department at Keefe, Bruyette & Woods (KBW) for insightful discussions and data support relating to the sensitivity of bank earnings to changes in interest rates. This particular issue of the GFSR draws in part on a series of discussions with banks, securities firms, asset management companies, hedge funds, standard setters, financial consultants, pension funds, central banks, national treasuries, and academic researchers.

This GFSR reflects information available as of September 19, 2016. The report benefited from comments and suggestions from staff in other IMF departments, as well as from Executive Directors following their discussion of the GFSR on September 23, 2016. However, the analysis and policy considerations are those of the contributing staff and should not be attributed to the IMF, its Executive Directors, or their national authorities.