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Editor's Note
Our policy is to review all books which are either sent to us or in our opinion are useful to our readers.

Book Review

Global Financial Stability Report 2024 : Times of Uncertainty, Artificial Intelligence, and Financial Stability[1]

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THE GLOBAL FINANCIAL stability is a report of IMF that highlighted the stability in the global financial system. It has indicated the manner in which the financial regulatory reforms implemented have supported global financial stability since the global financial crisis. The resilence of the financial sector had been strengthened by the comprehensive set of regulations that have guided supervision, better crisis management, macroprudential approach and overall preparedness to the global financial stability. The financial intermediation process has changed with the changing roles of the intermediaries and also with introduction of new intermediaries other than banks. They have played a significant role in enhancing the depth of the financial system and markets. The new state of financial intermediation presents opportunities and challenges for the system. It enhances the reach of financial robustness but also poses the risk of liquidity to the bank entities. Simultaneously the reach of the central banks, the Non bank financial institution without adequate information may restrict its ability to maneuver the monetary policy in line with the economic certainties and uncertainties that fall on the mammoth range of policy decision indicators. Risk taking ability is considered a part of the financial system that needs to be provided support by the Central Bank. A system approach is needed for the Non Bank Financial institution as they grow and undertake risk. The systematic effects of the overall development needs to maintain macroprudential prudence that need to ensure interopertability of the platforms domestically and internationally through domestic and cross border transfers. The trust in the system on the payment and settlements need to be ensured through the framework driven by robust systems.

The present economic activity has moderated and inflation is slow. Monetary easing and accommodative stances can be observed over the Central bank policy stance that maintain domestic and international perspective to flows of money. The challenges that continue to be struggle for economies are lofty asset valuations, the global rise of private and government debt, increased use of leverage by non bank entities that add

1 Adrian, Tobias; *Global Financial Stability Report;* October 2024, International Monetary Fund, Washington DC, USA pp. 128, Price NIL

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uncertainties to the financial stability of the financial system. The Chapter one of the report highlighted how the leverage from the financial institutions create non linear reaction and sell off in case of volatility spikes interact. They refer to the global stock price declines and volatility spikes in US and Japan. Chapter two of the report demonstrates quantitatively how the economic uncertainty can lead to downside risk of future growth, asset prices and bank lending. It indicates that real GDP percentage declines by 1.2 % a year ahead. The disconnect of the market volatilities with uncertainties can have domestic and cross border spill over effects that need to be contained.

Vulnerabilities are mostly seen through the rising soverign debts in both advanced and developing nations. They have to be absorbed by price sensitive buyers in advanced economies. The emerging markets have shown resilence. The Central banks have been focusing on domestic economic and inflation condition in setting monetary policy. Exchange rate risk has been used a as a means to deal with external headwinds. Uncertainities of trade, geopolitical nature and of slow growth in China pose serious challenge to the financial stability of emerging economies. Global issuance of sustainable debt has reemerged in 2024. In emerging economies sustainable debt remain low in local currencies. Underinvestment in climate finance could pose future challenges to financial stability. Despite easing of interest rates and lower interest rates in futures, firms may face difficulties in paying off their debts. Geopolitical events, Trade policies, high input cost and difficulty in servicing debt can remain the challenges for the corporate in near term future. There is pressure on the commercial real estate which is acute in many economies. Funding may be withdrawn from commercial real estate. This may lead to lowering of prices and put financial institutions in vulnerable state. The report states that the global banking sector has capital and liquidity. The deterioration of the asset quality because of consumer credit cards, automobiles and commercial real estate is not severe. Bank profitability could be negatively affected by the low interest rates as margins are likely to be hit. Artificial Intelligence will play a key role in capital market. It will help understand investment behavior but also put challenges of worsen financial fragilities of higher volatilities, opacity and supervision.

Among the policy recommendation, the report advises the Central bank not to react excessively to individual data point that would help reduce uncertainties. Growth and inflation continue to guide monetary policy. It is suggested to move gradually to neutral monetary stance. Also, where the inflation remain stubborn, central bacnks should push back against overly optimistic investors. It also emphasizes on the reporting of Non Bank financial institutions and improving NBFI's preparedness for liquidity, implementing FSB agreed upon standards and enhance stress testing to reduce systematic risk. Macroprudentical policy framework should provide for excessive risk taking by Non banking financial institutions and capital and liquidity for banking period so that they can provide for credit in times of stress. Weak banks and their impact on health institution and contagion effect is essential to be checked and taken care for global financial system. International standard and prudential frameworks need to be in place to ensure global financial stability is the main thrust of the report.

Overall it suggested policies that gradually ease monetary policy where inflation momentum is slow. It further suggest to push back overtly optimistic investor expectations to monetary policy where the inflation is above target. The report further suggested to focus on gradual and sustainable fiscal adjustment to rebuild buffers and reduce debt risk. There is a need to mitigate vulnerabilities to ensure bank resilience against credit risk while addressing the non bank leverage issue and liquidity mismatches. There is a need to engage in international cooperation for trade and climate. This is likely to achieve near term stability, risks remain contained although uncertainty are elevated and vulnerabilities are mounting.

To achieve macroeconomic stability, the report suggested the policies to establish credible policy frameworks; clearly communicating policies; adoption of adequate macroeconomic policies; limiting build up public debt and building reserve buffers and allow exchange rate flexibility to cushion against spillovers from global uncertainty.

The report on the policies of artificial intelligence and capital markets suggested that there is a need to address increased speed and volatility under stress; promote transparency through AI monitoring; reduce operational risk on concentrated AI Service providers and to ensure market integrity in over the counter markets.

The report highlights many new aspects and dimension of the changing financial system, its vulnerabilities and challenges that pose opportunities and need to be made resilient with constant macroprudential policy frameworks. The report will be useful for students, teachers, researchers and policy makers in all economies. It is a must for all Libraries.

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