

AGENDA: Supporting financial sector resilience through global disruptions like conflicts and the Covid 19 pandemic along with the approaching global recession

INTRODUCTION

Stresses triggered by the tighter stance of monetary policy may result in further bouts of financial instability. Contagion to the banking systems of major emerging markets remains contained, continuing the theme of resilience of these economies during this period of global monetary tightening. Emerging market banks tend to have less exposure to interest rate risk and a substantially higher share of stickier retail deposits. That said, the coverage level of deposit insurance schemes varies and emerging market banks in some countries have assets with lower credit quality than those in advanced economies, so they may not be shielded from a sharp deterioration of confidence. For frontier economies and emerging markets with lower credit ratings, the situation is more worrisome. While sovereign spreads of investment-grade emerging market have remained stable, those for frontier economies and high-yield emerging market widened to crisis levels following these recent events. Additional countries have likely lost market access, and debt distress pressures have become more pronounced. In addition to banking sector turmoil and fragile investor confidence, macro-financial volatility could also be exacerbated by geopolitical fragmentations. Faced with such heightened risks to global financial stability, policymakers must act resolutely to restore confidence. Central banks have tools to separate the actions to maintain financial stability from those taken to maintain price stability.

The IMF plays a key role in supporting the financial sector resilience especially through its lending to countries to weather the financial crisis through channels like RST and RFI, providing technical assistance to these countries to strengthen their financial system, surveying the global financial system for risk identification and is working to strengthen financial regulation and supervision globally.