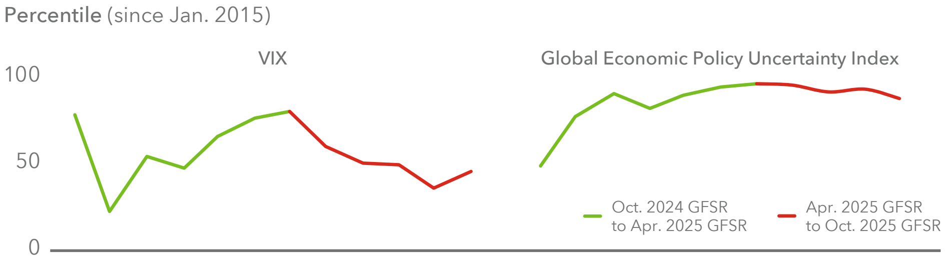
GLOBAL FINANCIAL STABILITY REPORT
Key Highlights

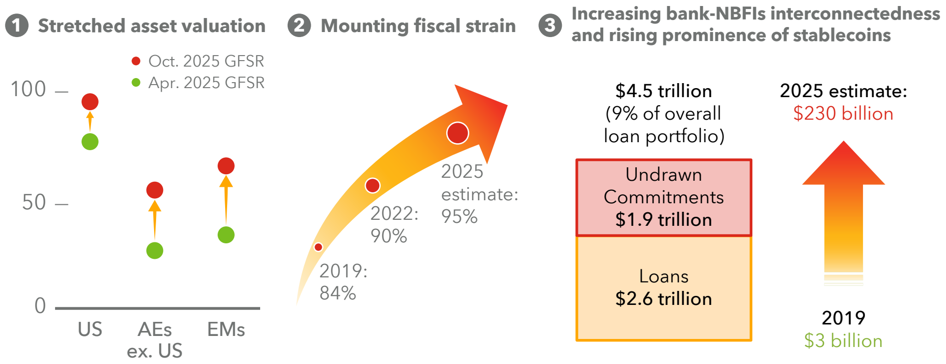
2025 OCT

Beneath the calm in financial markets, shifting ground poses new challenges to stability

Market volatility has declined since the April 2025 GFSR despite still-elevated uncertainties



...and shifting ground warrants vigilance



Equity index forward P/E (percentile since 1990)

World general government debt (Percent of GDP)

US and EU banks' exposure* to NBFIs (USD trillion)

Stablecoins market capitalization (USD billion)

POLICIES

- Remain attentive to potential risks to inflation
- Curb excessive government deficits
- Implement internationally agreed-upon prudential standards
- Strengthen financial sector safety nets and oversight on NBFIs
- Promote effective regulation and supervision of stablecoins

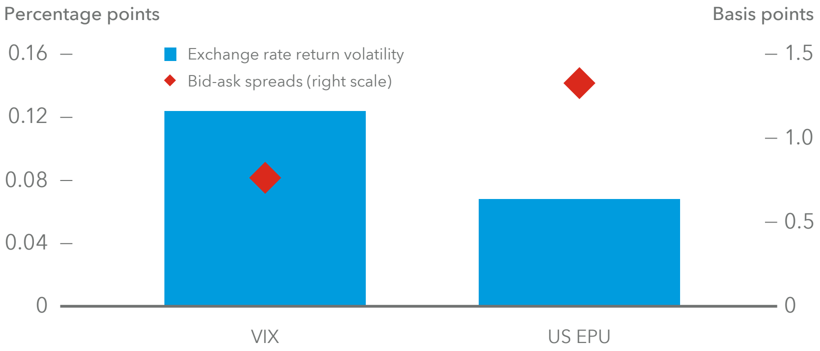
Sources: Bloomberg Finance L.P.; European Banking Authority; Federal Financial Institutions Examination Council Reports of Condition and Income; MSCI; IMF Global Debt database; and IMF staff calculations.

Note: AEs = advanced economies; EMs = emerging markets; ex. = excluding; GFSR = *Global Financial Stability Report*; NBFIs = nonbank financial intermediaries; P/E = price-to-earnings; USD = US dollar.

*Data for US banks as of 2Q2025 while EU banks as of 4Q2024.

The global foreign exchange (FX) market has grown over time but remains highly susceptible to uncertainty shocks

Effect of an Increase in Macrofinancial Uncertainty on FX Market Conditions



Sources: Bloomberg Finance L.P.; LSEG Datastream; and IMF staff calculations.

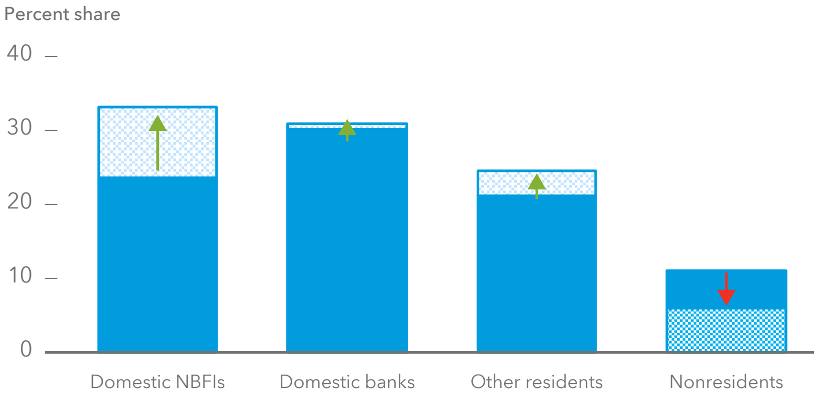
Note: The panel shows weekly excess exchange rate return volatility (bars) and bid–ask spreads (diamonds) against the USD following large macro-financial uncertainty shocks, measured by the VIX and the US economic policy uncertainty (EPU) index. Shocks are defined as periods when the unexplained component (residual) of uncertainty measures rises sharply, more than two standard deviations above the average.

POLICIES

- Strengthen surveillance to monitor systemic risks arising from FX market stress
- Maintain strong capital and liquidity buffers, supported by robust crisis management frameworks
- Enhance operational resilience of key FX market participants, including safeguards against cyber risks
- Encourage broader use of payment-versus-payment arrangements to reduce settlement risks

Increased domestic ownership of local currency EM bonds alleviates external vulnerabilities but some risks remain

Changes to EMDEs' Local Currency Government Bond Market Investor Base



Sources: National authorities; and IMF staff calculations.

Note: Changes are from 2012 to 2024. The chart reflects median values derived from a baseline sample of 29 EMDEs. EMDEs = emerging market and developing economies; NBFIs = nonbank financial institutions.

POLICIES

- Strengthen macroeconomic fundamentals to improve fiscal sustainability and debt-carrying capacity
- Deepen local debt markets and strengthen market infrastructure to reduce vulnerabilities to external shocks
- Diversify investor base to mitigate concentration risks and foster development of domestic institutional investors