

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 : Shifting Ground beneath the Calm¹

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THE WORLD ECONOMIC Outlook outlines the resilience of the world economy amid persistent uncertainties. The global uncertainties with the domestic imbalances in the world economies that are affected by rising costs of living, rising debt levels, limited fiscal spaces, accommodative monetary policies and correction in structural imbalances continue to guide national and international policies for economies. The developments of multipolar world economic order that continue to be guided with cross country differences in growth rates, age structures and developments have added to the need for more national policies that reform labour, product and financial markets. The internal and external balances with improved health to meet short and long term debt servicing requirements has been a persistent priority for most economic that have extinguished the fiscal space during pandemic and trade war. The volatilities in the financial markets with limited monetary space with rising inflation and need to meet balance of payment requirements is a tight rope to walk for most economies.

The global financial stability report brought out by IMF highlights the strengths and challenges of the global financial system. The report provides an assessment of the global financial system and markets and addresses emerging market financing in the global context. It focuses on the current market conditions, highlighting systematic issues that could pose a risk to financial stability and sustained market access by emerging market borrowers. The Global Financial Stability Report 2025 draws out the financial ramifications of economic imbalances highlighted by IMF World Economic Outlook 2025. It contains three chapters. The chapter 1 is on the shifting ground beneath the calm addresses the stability challenges and changes in the financial markets. The Chapter 2 refers to the risk and resilience in the global foreign exchange market. The Chapter 3 refers to the global shocks, local markets in the changing landscape of emerging market sovereign debt.

1 IMF, "*Global Financial Stability Report : Shifting Ground beneath the Calm*", October 2025, International Monetary Fund, Washington D.C., USA, pp. 103, Price NIL.

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The forex markets have played an important role in the financial stability as the external equilibrium are anchored through the exchange rates that determine the flow of trade and capital into the economy. The bank and non bank players are crucial participants of the markets. In most economic financial crisis, it has been observed that hot money left the countries with depreciating currencies that have affected the sovereign ability of the countries from stable to vulnerable positions. The higher tariffs and changes in the world economies through the domestic imbalances have put a pressure on the foreign exchange markets. The markets have observed depreciation in emerging economies but with limited space as inflation continue to be above the targeted levels of the central banks. The weak US dollar has also helped economies to stabilize their foreign exchanges. Yet the systematic and structural imbalances continue to put strain on the fiscal space of most economies. The social unrest and difficulties to meet crucial spending requirements continue to put pressure on the financial flows, credibility amid continued uncertainties. The forex market is interconnected, large and complex and the uncertainties add to the stress in the system. Hedging in the forex market tends to raise the demand for foreign currency funding costs, widen bid-ask spread, and amplify the excess exchange rate return volatility. Structural vulnerabilities such as significant currency mismatches on balance sheets, concentrated dealer activity and elevated participation of non financial participants exacerbate the strains of the forex markets. The strain of the forex markets can spillover to the other asset classes in economies with weaker fiscal positions and currency mismatches. The increased forex trading with one party at the delivery end without counter value has added to the operational risk including technical risk and cyberattacks. There is a need for the policymakers to enhance surveillance, ensure adequate buffers at financial institutions and strengthen the global financial safety net and operational resilience.

The chapter 3 examines the evolution of emerging markets and developing economies sovereign debt markets against the backdrop of reduced financial flows, rising debt levels and heightened global shocks. The long term debts have been on a continuous rise and weak fiscal positions and monetary limitations have shifted the emerging economies to borrow on the short term. The borrowings have been from local investors, domestic banks and central banks. In case shocks appear this would deepen the divergence between the resilient and vulnerable economies. The reliance on local investors in many economies have helped the economies to outdo the global shocks but heavy reliance on local investors driven by financial repression can lead to its own risk. The report recommends improving the macroeconomic fundamentals, establishing strong policy framework with robust financial systems. The need for foundational market infrastructure, legal certainty and sound sovereign debt management is emphasized for the economies globally.

The continuous strain of the economies to fall in the debt trap and not correct the structural imbalances continues to haunt the financial system stability. The need for a continuous evaluation of the financial system,

address deficiencies in the system and accommodate changes that strengthen in the financial system through foundation market infrastructure and legal certainty can lead to sustainable sovereign debt levels. Many economies during heightened episode of macro financial uncertainty have observed affects on foreign exchange markets and financial stability. The present uncertainties continue to strain economies with varied challenges and socio-economic developments that force them to relook at the structural aspect from social-economic and financial perspective.

The deeper understanding of the needs and vision of economies that promise the shared sense of responsibilities to the possible outcomes of the choices made need to be deliberated, discussed and defined to reduce uncertainties. The challenges in the world economies do not stand against each other but for each other in building shared prosperity and growth for economies with financial interdependence and sound prudential policies of financial flows.

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