

2.2

FOSTERING FINANCIAL STABILITY

With the Covid-19 pandemic increasingly in the rear view, 2022 has brought new challenges for global financial stability. Russia's invasion of Ukraine has profoundly changed the global economic and financial markets backdrop. The combination of lower growth, rising inflation and tighter global financial conditions has made it more difficult to achieve strong, equitable and inclusive growth. Moreover, many economies may be less resilient to shocks than they were two years ago. Debt levels in the non-financial sectors have risen further. Firms and households have used part of their financial buffers to weather the pandemic. Policy space is often constrained, notably in many emerging markets and developing economies.

A resilient global financial system is essential for strong and sustainable global growth. The economic impact of the pandemic was contained through a timely, effective global policy response. This response involved utilising



financial buffers and increasing non-financial sector debt. As the pandemic recedes, it is important to rebuild macroprudential policy space whenever national conditions allow.

The Financial Stability Board is taking forward its work to bolster the resilience of the financial system. This includes work on effective financial sector practices for national authorities to consider for addressing the effects of Covid-19 scarring, including corporate debt overhang; the continuation of our work to strengthen resilience of non-bank financial intermediation under the FSB's NBFIs work programme; and, in a rapidly evolving financial market environment, the intensive monitoring and assessment of current vulnerabilities.

STRUCTURAL CHANGE

Covid-19 has also accelerated structural change in the global economy and in the financial sector through the rapid adoption of technology. This forms another key strand of our work: harnessing the benefits

Klaas Knot,
chair, Financial Stability Board

Conditions for financial stability

The difficult combination of rapidly evolving financial conditions and swift structural change in the financial system may be with us for some time, but with shared efforts we have the tools to secure and promote a resilient global financial system

of digital innovation while containing its risks.

The use of new technology is one important element of the FSB's ongoing work to enhance cross-border payments. The aim is to bring about cheaper, faster, and more transparent and inclusive cross-border payment services, including remittances, for the benefit of citizens and businesses worldwide. Following a year of foundational work under the G20 Roadmap for Enhancing Cross-Border Payments and the establishment of quantitative targets, the next stage includes the development of specific proposals for material improvements to existing systems and arrangements, as well as the development of new systems. The practical work involved will require global coordination, strong involvement from the public and private sectors, and sustained political support. It will also require investment in order to upgrade systems, processes and technologies.

Public dissatisfaction with existing cross-border payments services is one factor behind the growth in crypto-asset markets. In February, the FSB published an updated assessment of risks to financial stability from crypto-assets, including unbacked crypto-assets, stablecoins and decentralised finance. It concluded that these fast-evolving markets could reach a point where they represent a threat to global financial stability due to their scale, structural vulnerabilities and increasing interconnectedness with the financial system. The turmoil in crypto-asset markets over this past summer validated many of these concerns, underscoring the need to put in place a robust international framework to identify, monitor and address those risks.

The FSB's proposed recommendations for regulating, supervising and overseeing crypto-assets aim to cover any type of crypto-asset activity, as well as the associated issuers

“

Public dissatisfaction with existing cross-border payments services is one factor behind the growth in crypto-asset markets”

and service providers – including crypto-asset trading platforms – that may pose risks to financial stability. These recommendations seek to promote the comprehensiveness and international consistency of regulatory and supervisory approaches.

More work remains to be done in 2023 and beyond – on data, the operationalisation of recommendations and implementation. Once the work is completed, the appropriate regulation of crypto-assets, based on the principle of ‘same function, same risk, same regulation’, will provide a strong basis for harnessing the potential benefits associated with this form of financial innovation while containing its risks.

FOR EFFECTIVE ACTION



Digital innovation is also expanding the landscape for cyberattacks, underlining the need for heightened vigilance and strong cyber response and recovery capabilities. Recognising that information on cyber incidents is crucial for effective action, the

FSB is building on its earlier work in this area, promoting greater convergence in cyber incident reporting.

The challenging combination of rapidly evolving financial conditions and swift structural change in the financial system may be with us for some time. Through the combined efforts of our diverse and cross-sectoral membership, the FSB will continue to develop global solutions to truly global challenges and promote a resilient global financial system. 

KLAAS KNOT

Klaas Knot has been president of De Nederlandsche Bank since 2011 and has served as chair of the Financial Stability Board since December 2021. He is a member of the governing council and general council of the European Central Bank, and a member of the European Systemic Risk Board, the International Monetary Fund's board of governors and the board of directors of the Bank for International Settlements. He is also a professor of economics at the University of Groningen and honorary professor of monetary stability at the University of Amsterdam.

 @KlaasKnot
 fsb.org

