Funding the Future

The IMF is now saying it's time to worry

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Markets may look calm, but the foundations of global finance are anything but secure. Rising government debt, fragile non-bank financial intermediaries, and speculative assets like stablecoins are all part of a system that appears steady only because investors are choosing not to look too closely.

That's the opinion reflected in the IMF's latest [Global Financial Stability Report,](#) issued yesterday, which warns that asset prices are once again stretched far beyond fundamentals. At the same time, banks and shadow banks have become dangerously entangled. In addition, a sudden drop in asset values or rise in interest rates could easily set off a chain reaction, whether from balance-sheet losses in banks to liquidity crises in investment funds.

In short, the IMF shares my gloom about the risk of a crash within the economy. They obviously believe that the global financial system remains exposed to the same feedback loops that triggered past crises. The difference is that this time, the risks are dispersed across an opaque web of private funds and unregulated markets, which might make them much harder to manage when the crash happens.

The IMF's prescription of greater prudence, stricter regulation, and fiscal restraint, however, barely scratches the surface of what is needed. The deeper question is whether we can continue to run a world economy on speculative confidence and private credit creation when both are visibly eroding. The calm, as ever, may be just before the next storm, and the IMF clearly thinks it may not be long in coming, as I have been saying for a while, but from which fact I take little comfort.

You have been warned.

Worry. That is the official line to take now.