

# Ensuring Global Financial Stability in an Era of Disruption

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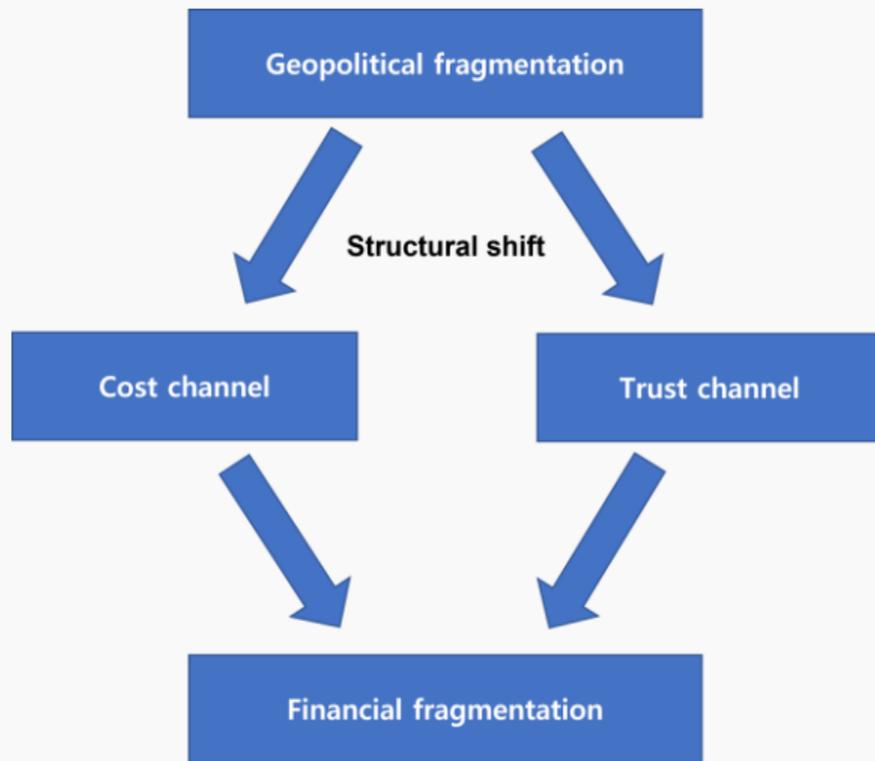
# Introduction

- Geopolitical fragmentation amid structural shifts is transforming the global financial system.
  - Structural shifts are already generating new systemic risks and outpacing regulatory governance.
  - As geopolitical fragmentation overlays structural shifts, risk of financial fragmentation is rising.

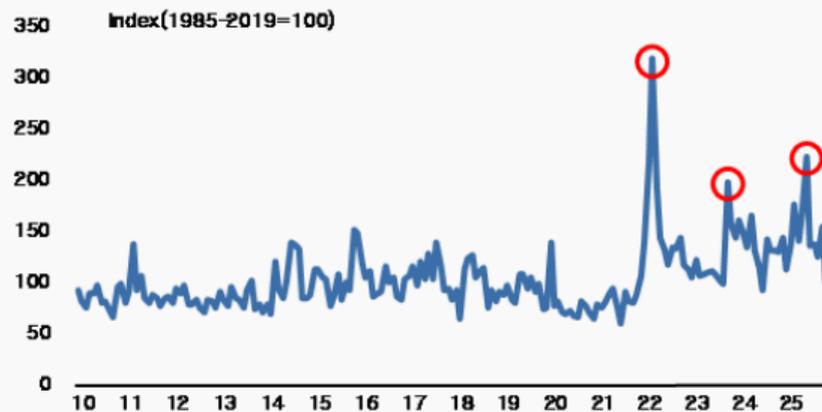
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- **Interplay** between geopolitical fragmentation and structural shifts is highly complex.
  - Structural shifts would likely amplify geopolitical fragmentation shocks and raise systemic risk.
  - Rising systemic risk can erode trust in shared global systems, fostering financial fragmentation.
  - Financial technology can accelerate the spillover from geopolitical to financial fragmentation.

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  - Rising systemic risk can erode trust in shared global systems, fostering financial fragmentation.
  - Financial technology can accelerate the spillover from geopolitical to financial fragmentation.
- **Key question**
  - How far will **geopolitical fragmentation** spill over into **financial fragmentation**?
  - Speculate on potential strategies to strengthen international cooperation.

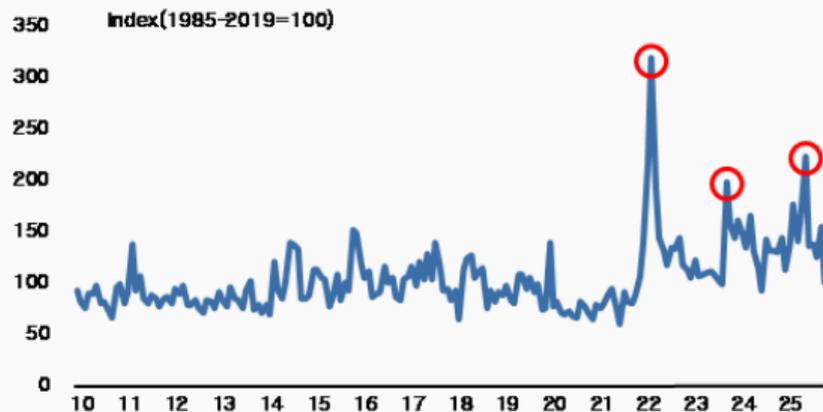


## Geopolitical Risk Index



Sources: Caldara & Iacoviello (2022)

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## Foreign Direct Investment Fragmentation



Sources: IMF, World Economic Outlook (2023)

# Structural Shifts in Global Finance: NBFIs

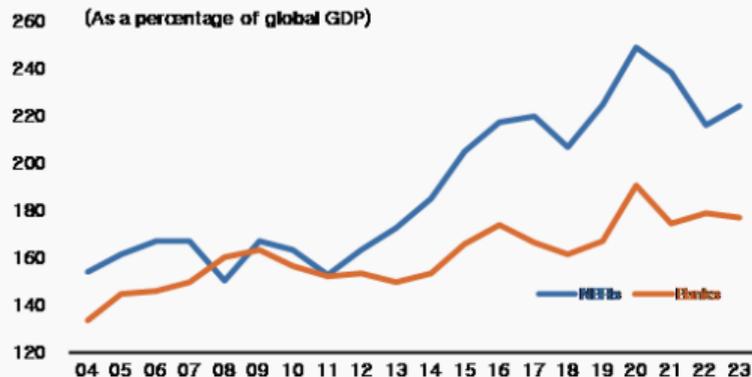
## Growth & Migration from banks to NBFIs

- After GFC: low interest rates + regulations
- Account for half of global financial assets

## Core vulnerabilities within the NBFIs system

- Liquidity mismatch & Leverage
- Tight bank–NBFIs linkages: contagion risk
- Sensitive to shifts in global risk appetite

## Financial assets, by institution type



Sources: BIS

# Structural Shifts in Global Finance: NBFIs

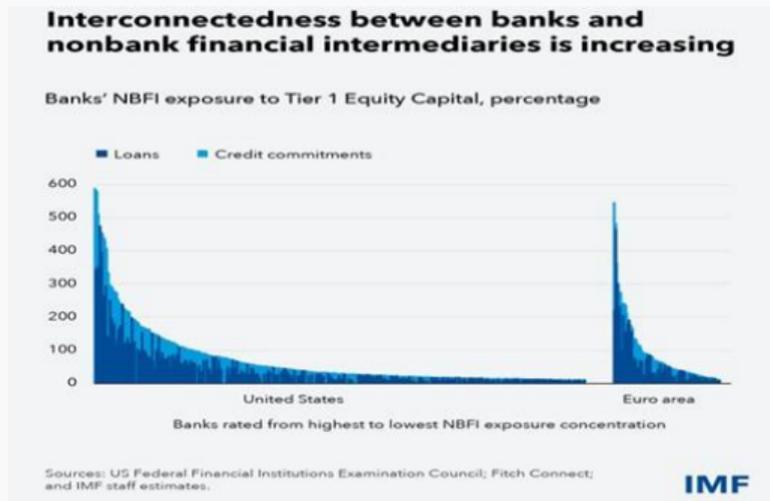
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## Interconnectedness between banks and NBFIs



Sources: IMF, *Global Financial Stability Report (2025)*

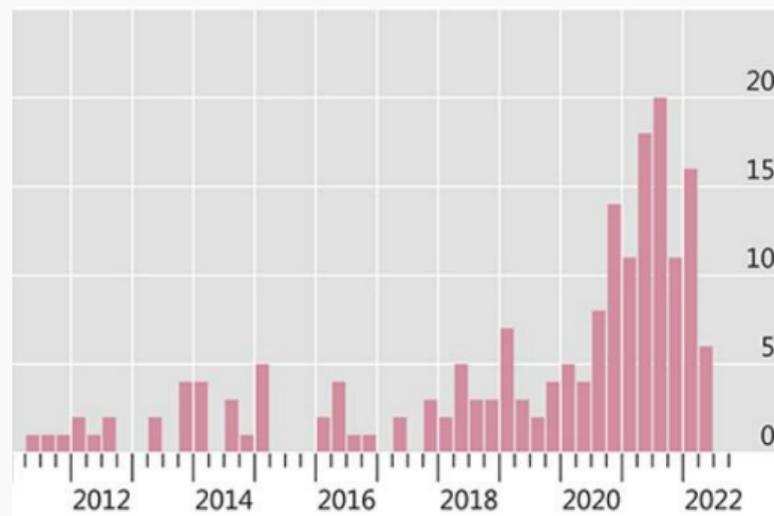
## Multiple Digital Technologies

- Instant, low-cost 24/7 settlement
- Rules and code run finance.

## Efficiency gains and new vulnerabilities

- Reduces the cost of building new platforms.
- Shock amplification: SVB, Silvergate Bank.
- Cyber security risk

## Theft of cryptocurrencies over time



Sources: BIS

# Structural Shifts in Global Finance: Sovereign Debt

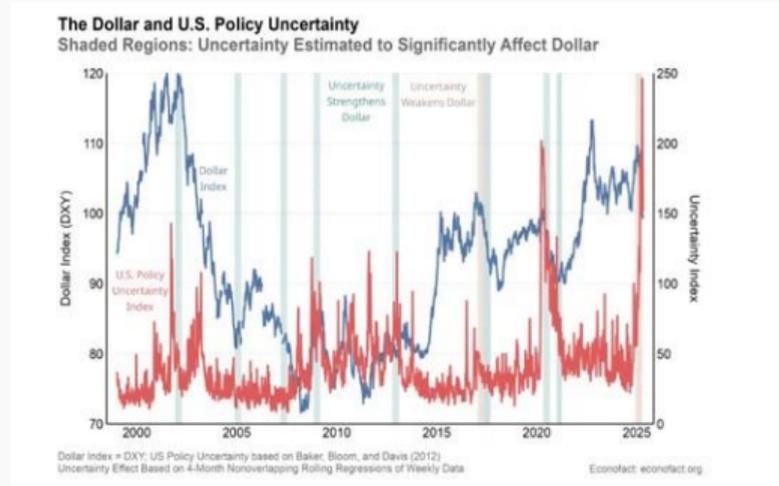
## Eroding dollar & Treasuries safe-asset roles

- Dollar didn't strengthen in recent stresses.
- Long Treasuries recently lost their hedge.

## Changing creditor composition of LICs

- LICs shift from Paris Club to new creditors
- Complicated LIC debt resolution

## US Dollar Index in April 2025



Sources: FRED

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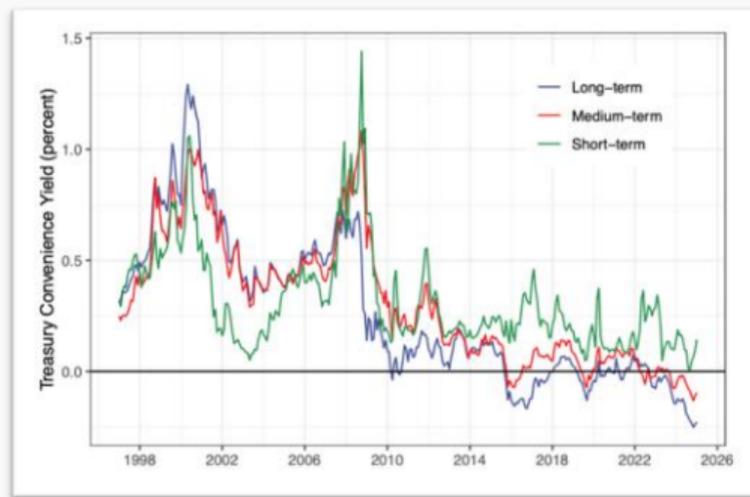
## Convenience yield

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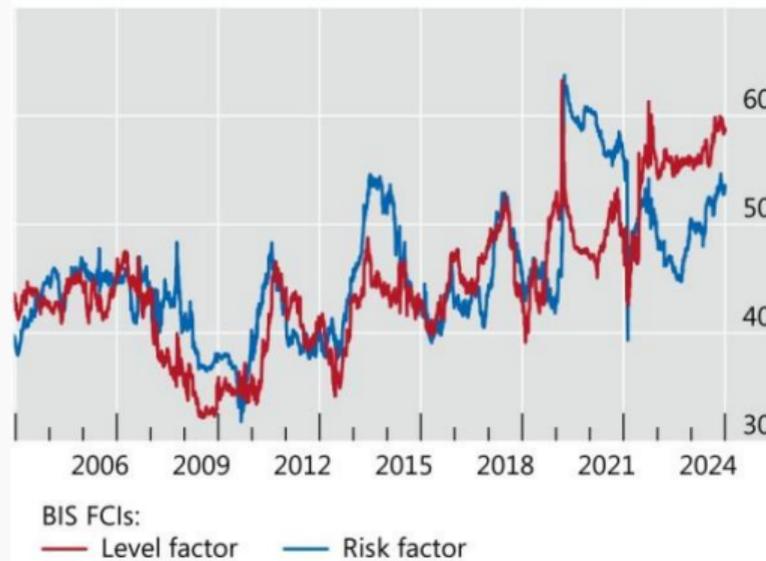


Sources: Jiang, Richmond, and Zhang (2025)

## NBFI flows are sensitive to shocks

- Rapid NBFIs outflows (BIS 2025)
- NBFIs may transmit shock faster.
- Increased systemic risk may erode trust and promote financial fragmentation.

## Global financial market connectedness



Sources: BIS, Annual Economic Report (2025)

# Interactions with Fragmentation: Technology

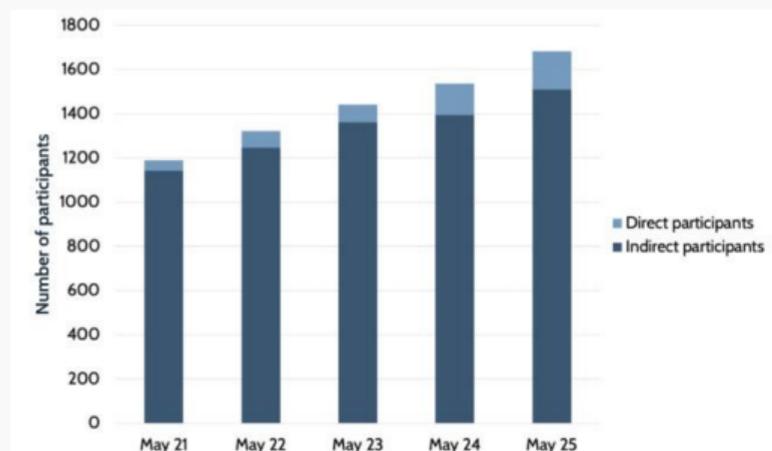
## Low cost of building new platforms

- Enable rapid creation of parallel systems
- Weaponization → Financial fragmentation

## Erosion of trust in shared global systems

- Less trust, less reliance
- Incentivizes building insulated system

## CIPS Network Participants



Sources: CIPS

# Interactions with Fragmentation: Sovereign Debt

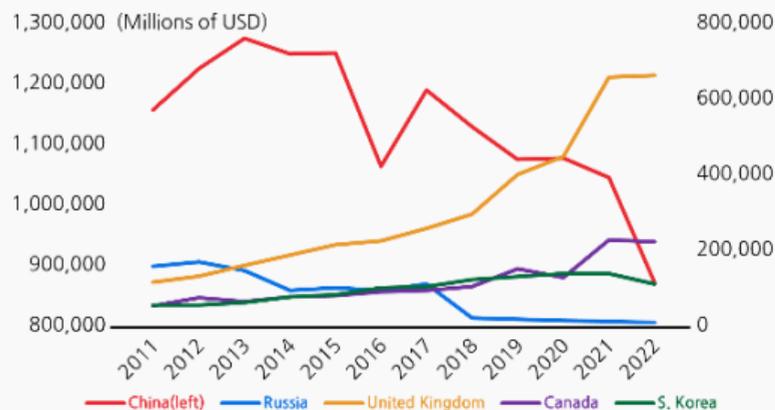
## Fragmentation accelerates erosion of dollar

- It has narrowed the foreign investor base.
- A feedback cycle of weak debt dynamics and safe-asset erosion

## LIC debt distress

- Opaque lending raises hidden-debt risks
- Hard to restructure debt

## The foreign share of outstanding holdings



Sources: Treasury International Capital

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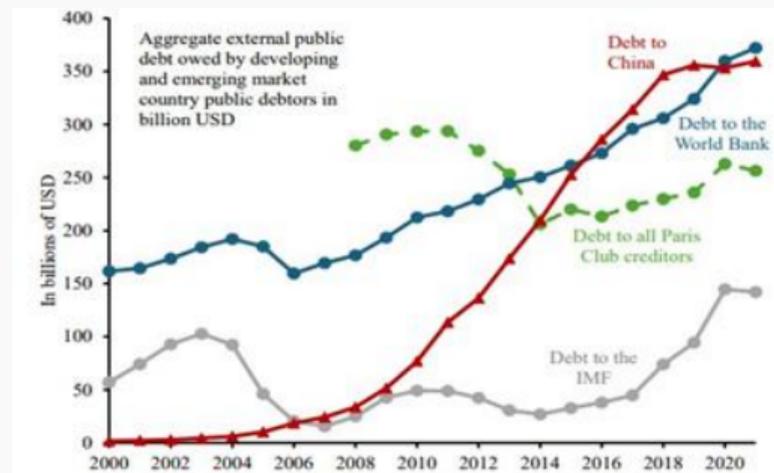
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## Public debt owed by developing countries



Sources: Horn, Reinhart, and Trebesch (2025)

## What Stability Requires

- National resilience paired with global cooperation.
- Preserving interoperability to reduce permanent fragmentation
- Trust building through global cooperation on shared global system

## How We Get There

- Reinforcing Domestic Financial Resilience
  - Strengthen liquidity buffers
  - Enhance regulatory frameworks
- Revitalizing Global Cooperation
  - Data transparency and sharing
  - Commitments to interoperable standards
  - Minilateral coalition (Geneva Report 2025)

- Geopolitical fragmentation and financial structural shifts are reshaping the global system.
- Structural shifts increase the risk of geopolitical fragmentation spilling over into financial fragmentation.
- During transition toward multipolar world, shared regulatory standards and interoperability are central to global financial stability.
- Reinforcing incentives for collective action will be vital to safeguard stability as global finance becomes more multipolar and more fragmented.