



# **Session 3: Comments on Ensuring Global Financial Stability in an Era of Disruption**

**QUO VADIS MULTILATERALISM? INTERNATIONAL  
COOPERATION IN A CHANGING GLOBAL ORDER**

**DECEMBER 2025**

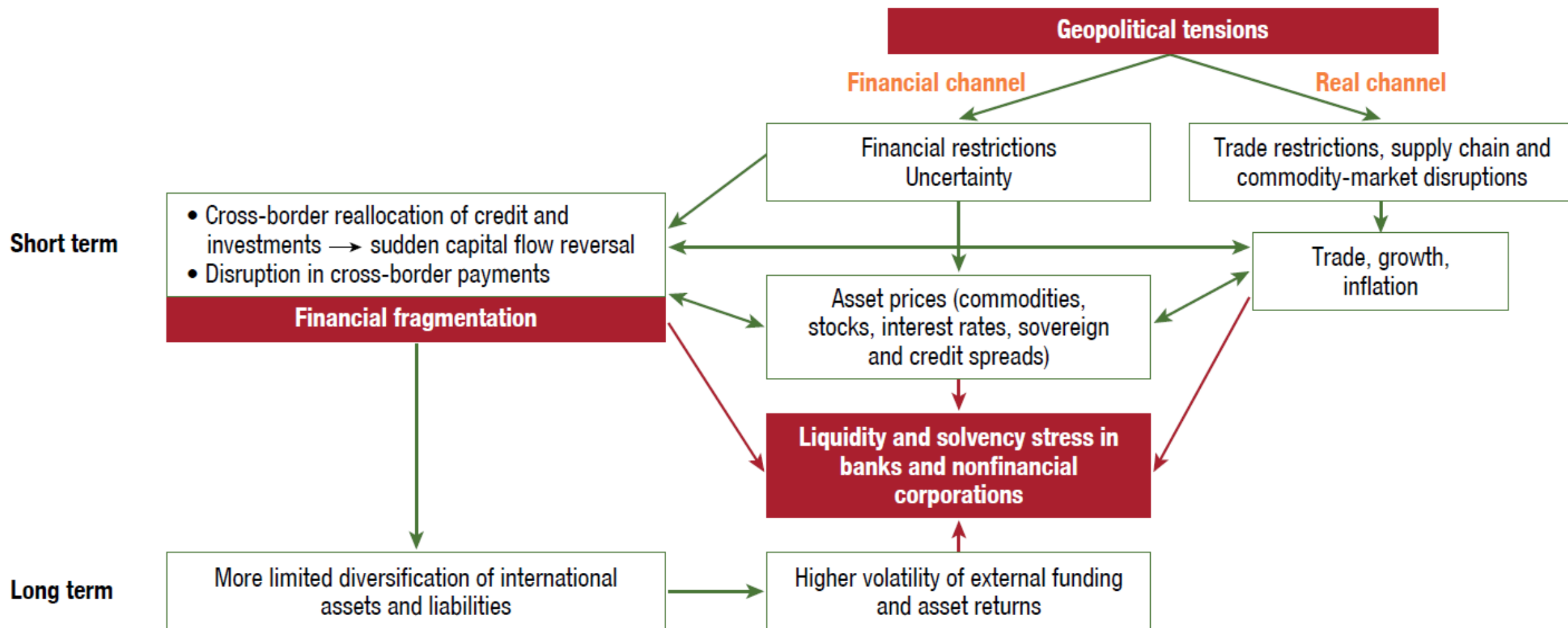
Kenneth Kang  
International Monetary Fund

*The views in this presentation represent my own and should therefore not be reported as representing the views of the International Monetary Fund, its Executive Board, or IMF management.*

# What I Liked about the Paper: Main Storyline

- Comprehensive overview of geoeconomic fragmentation (GEF) impact and structural changes in global finance (IMF, FSB and others)
  - ▶ Evidence of rising geopolitical risks, formation of economic blocs, fragmentation in CB flows.
  - ▶ Layered on top of structural shifts: bank to NBFIs, rapid digitalization of finance, surge in sovereign debt, esp for LICs
- Interesting exercise to consider interaction between GEF and structural transformation in global finance and implications for financial stability
  - ▶ Similar vulnerabilities (liquidity, leverage, procyclicality) but GEF amplifies risks from regulatory arbitrage, lower diversification, volatile capital flows, new exposures, e.g. cyber risks...
  - ▶ ...but given cross border linkages/spillovers, national policies insufficient to contain.
- Policy priorities for strengthening domestic financial resilience and international coordination
- Comments focus on recent research on NBFIs and IMS/currencies and possible new directions...

**Figure 3.3. Key Channels of Transmission of Geopolitical Tensions and Macro-Financial Stability**



Source: IMF staff.

Note: The figure shows the two key channels of transmission, financial and real, through which geopolitical tensions could contribute to financial fragmentation and exacerbate macro-financial stability risks. In addition to these channels, macro-financial stability could also be affected if geopolitical tensions increase cybersecurity risks, compliance, legal and reputational risks for entities, risks associated with money laundering and financing of terrorism, or climate-related risks because of lack of international coordination to mitigate climate change.

# 1. NBFIs: Banks' direct exposures and role of policies

(a) Loan Market

Stock of Bank Lending to NBFIs



(b) Bond Market

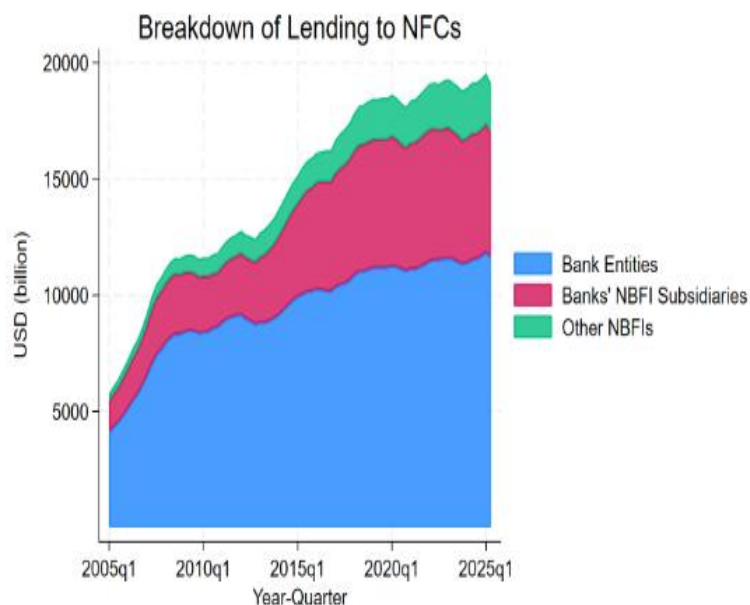
Stock of Bank Lending to NBFIs



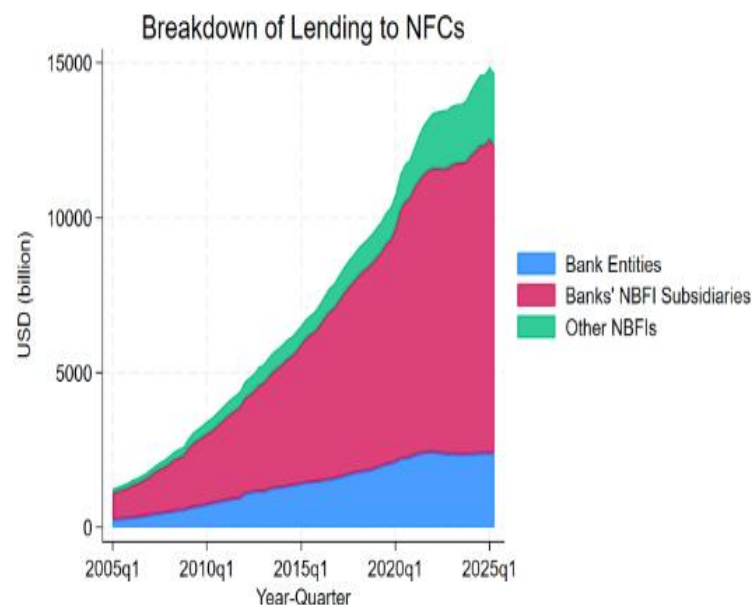
- Banks' direct exposure to NBFIs has increased in the syndicated loan and bond markets, contributing to NBFI expansion.
- **Possibly related to tighter macroprudential policies:** banks seem to switch lending to NBFIs and away from NFCs after shocks that affect banks' capital positions (Albuquerque et al. 2025a, Krainer et al. 2025).
- Albuquerque et al. (2025a,b) estimate a 1% to 2% increase in bank lending to NBFIs relative to NFCs after a 1-std MaPP tightening shock.
- NBFI's lower risk weights relative to NFCs may explain banks' lending to NBFIs after tighter regulation.

# NBFIs: ...and indirect exposures also matter

(a) Loan Market



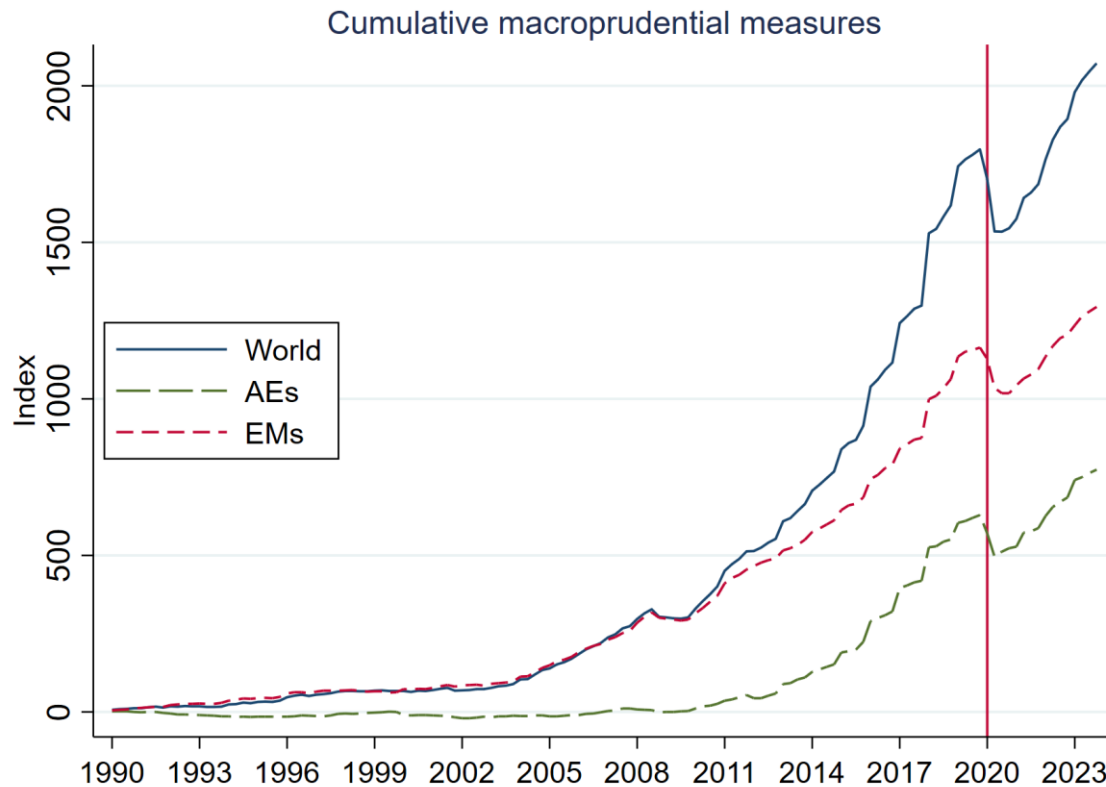
(b) Bond Market



- Banks have increased their presence in credit markets through their NBF affiliates. As a share of total bank lending to NFCs, NBF subsidiaries account for:
- **Syndicated:** 32% today (up from 22% during the GFC). **Bonds:** 81% today (up from 75% during the GFC).
- Banks' behavior may be related to regulatory arbitrage: trading activities shift to the less-regulated nonbank subsidiaries (Albuquerque et al. 2025b).
- Regulatory arbitrage brings about risks to financial stability, as we have seen in the past (e.g., GFC).

# Countries have actively been using more macroprudential measures (MaPP)

## Net cumulative sum of macroprudential measures



Notes: Alam et al. (2025) iMaPP database and authors' calculations. The red vertical line marks the start of the Covid-19 pandemic in 2020Q1.

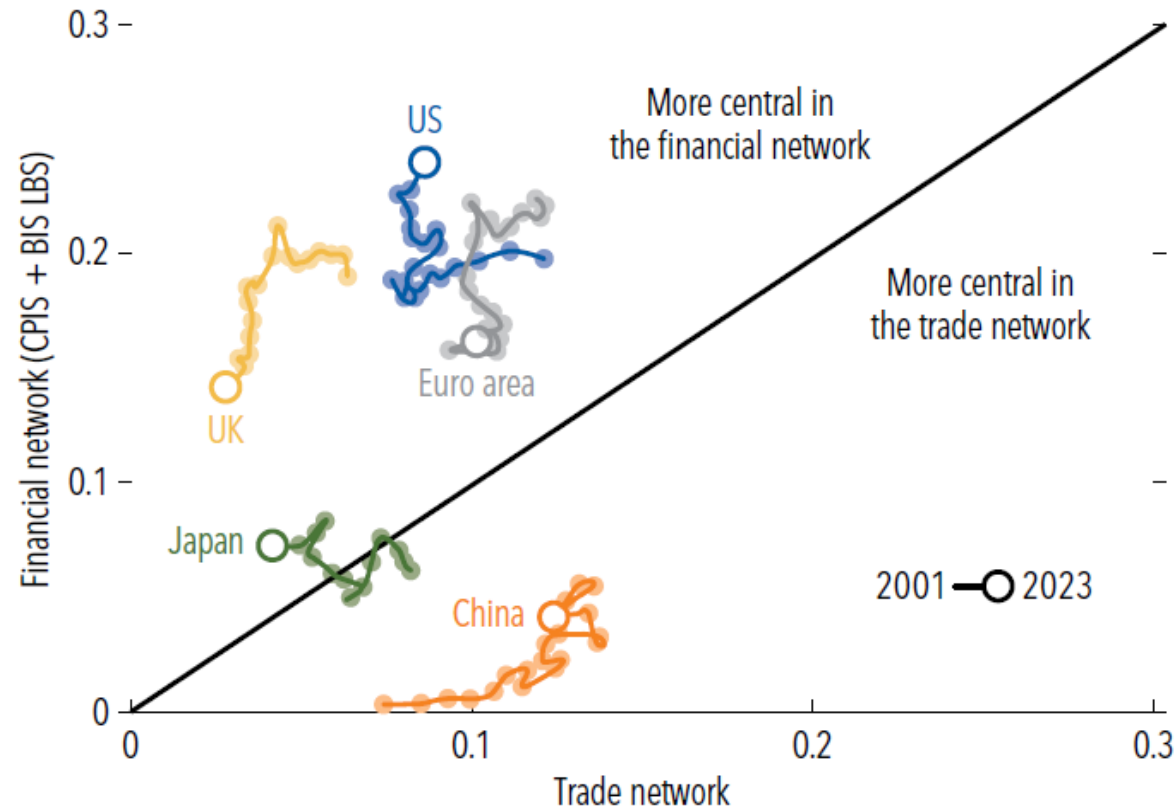
- MaPP is designed to curb excess credit growth and strengthen financial resilience.
- EMs are particularly more active in the use of MaPP to manage financial stability risks.
- These tools may have, however, contributed to the expansion of nonbanks: often tighten banks' balance sheet constraints, reducing their lending capacity and creating space for nonbanks to fill the funding shortfall.

## 2. IMF 2025 External Sector Report: New IMS Framing

- New Chp 3 focuses on the stability of the IMS (international monetary system) and rising asymmetries between trade and finance (“Currencies in a Changing World”)
  - ▶ Despite important global changes, IMS has remained broadly stable and centered on the USD which has exceeded US weight in global economy...However,
  - ▶ “...recent geopolitical and economic shifts could weaken network externalities, creating potential vulnerabilities in the system.”
  - ▶ Emerging trends: rising GEF concerns, new trade/financial centers esp CHN, changing role of US as world banker/insurer, and technology/advances in digital payments
  - ▶ What does this mean for configuration of currencies and IMS stability?
- Proposes new framework and measures for monitoring and analysis
  - ▶ Focus on asymmetries in trade and financial networks and currency use



**Figure 2.10. Country Centrality in Trade and Financial Network over 2001-23<sup>1</sup>**



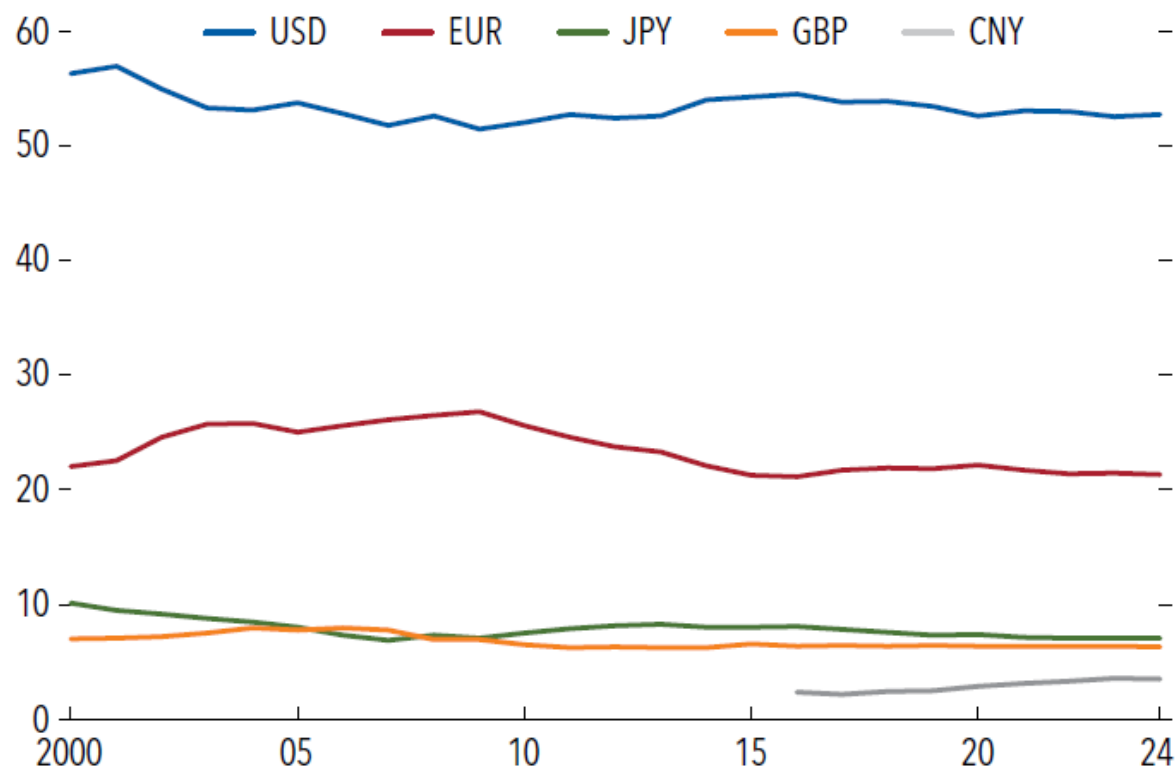
Sources: Bank for International Settlements Locational Banking Statistics; Portfolio Investment Positions by Counterpart Economy data set; Coppola and others (2021); Gaulier and Zignago (2010); and IMF staff calculations.

<sup>1</sup>Each dot represents the annual value of the centrality measure of a country in the trade and financial network (see Text Box 2.1). "Financial network" represents the sum of cross-border holdings of portfolio assets and banks' loans and deposit claims. Mirror data are used to fill missing data whenever available. Portfolio holdings are corrected for the role of offshore financial centers using the rescaling matrix of Coppola and others (2021). Intra-European Monetary Union holdings and trade are excluded.

- New analysis on growing asymmetries between global trade and financial networks
  - ▶ **US** become more central in global financial network, reflecting larger foreign holdings of US banking and portfolio assets, while dominance in trade network has declined...
  - ▶ Meanwhile, **CHN** has substantially increased role in global trade network, though role in financial network remains limited
  - ▶ **JPN** like US more central in finance, less in trade, while **EA** and **UK** experienced decline in both
  - ▶ Reflection of increasing specialization in trade or finance by major economies.
- **Nonetheless...**



**Figure 2.4. An Index of International Currency Usage**



Sources: Allen and Juvenal (2025); IMF staff calculations based on analysis in Boz and others (2025) and expanded and updated data from Boz and others (2022); Currency Composition of Official Foreign Exchange Reserves data set; External Wealth of Nations database (2025); Eurostat; and HM Revenue & Customs.

Note: Excludes intra-euro area holdings. Index is a simple average of each currency's share of global disclosed foreign exchange reserves (25 percent weight), trade invoicing (25 percent weight), foreign exchange turnover (25 percent) and global balance sheets (25 percent weight). Global balance sheets represent the sum of foreign assets and liabilities (excluding reserves) in each currency over total foreign assets and foreign liabilities. CNY = Chinese yuan; EUR = euro; GBP = British pound sterling; JPY = Japanese yen; USD = US dollar.

- ...increasing asymmetry between trade and finance centralities contrasts with near constant asymmetry between currency use in trade and finance
  - Asymmetry between “centrality” and “currency” linked to stability of unipolar vs. multipolar IMS that depends on strong network externalities, supply of global safe assets, role of center as world banker/insurer, etc.
  - Need for close monitoring of asymmetries and new dynamics including GEF, digital payments, etc.
- ▶ Risks of volatility and instability during transition
  - ▶ Recent episodes/emerging trends a clear warning. Too early to draw conclusions but can prepare...

# Ideas for Possible Extensions/Focus Shift

- More Early Warning Exercises (EWE) to assess impacts of possible shocks and vulnerabilities
  - ▶ Paper could take compendium of vulnerabilities to next level and consider cross-border implications more explicitly through scenario analyses
  - ▶ Ex: EWE used by IMF/FSB to help identify tail risks and vulnerabilities leading to systemic shocks and inform risk-mitigating policies, including for intl cooperation. Not just for the IMF/FSB!
- Shift in focus from global/IMS to regional/national vulnerabilities and transmission
  - ▶ Lots of work looking at broader global shocks and interactions, but less on more EM-specific or regional shocks and their domestic channels of transmission
  - ▶ Ex: Other cases of UK LDI, Korea's ELS highlighting new domestic vulnerabilities?
  - ▶ Regional initiatives to deepen integration/strengthen resilience, e.g. ASEAN efforts to link domestic fast payments?
  - ▶ Factors behind countries' different responses to rise of USD-stable coins

# Further Ideas for Possible Solutions

- Policy coordination: Lessons from the past?
  - ▶ Similar to trade reform (e.g. Evenett and others, revisit pre-GATT), look for historical episodes for how to promote international financial cooperation in a divided era
  - ▶ Bretton Woods, GFC/G20 coordination unrealistic, but maybe pre-1988 Basel I following repeated banking crisis; pre-1930 creation of BIS for central banks
  - ▶ Build on need for common standards, information sharing, monitoring of spillovers, liquidity management. Ex: cyber crimes, AML/CFT?
- Private sector examples of aligning of economic/political incentives/concerns (digital finance?):
  - ▶ Ex: Global interoperability for cellular networks from GSM (Groupe Special Mobile: 1980-90s) to 3GPP (3<sup>rd</sup> Generation Partnership Project: from 1988)
  - ▶ Others: credit card payment networks, ISO shipping container standards, aviation safety.
  - ▶ Build on need for common standards, strong network effects/desire to capture rents, public private coalitions, clear identification of mutual gains, credible data/analysis and bargaining tools to manage tradeoffs, e.g. market access, patents. Role of IFIs?

Thank you!

