



Geopolitics and international finance - knowns and unknowns

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21 October 2024, Washington D.C.

*The views expressed here are mine and not necessarily those of the Bank for International Settlements

Overview

- Vantage point of BIS statistics: International banking, bonds, derivatives.
- What are possible geopolitical fault lines?
 - The currency dimension: rise of regional currencies?
 - Geography: capital flows and bank exposures
- Do specific cases generalise to wider fault lines between groups of countries?
- Unknowns > knowns
 - Non-reporting bloc: blind spot
 - NBFIs: international activity?
 - Geopolitics: scope and measurement?

Part A) The currency dimension

Currency denomination is an intrinsic attribute of financial instruments

Fault lines in the currency dimension?

- Int'l monetary system dollar-centric
- Perception of "weaponisation"
- Rise of regional currencies
- Int'l statistics cover few currencies
- G10+ ("West"), and CNY
- Even the 18 currencies [CLS](#) settles contain only two "non-West".
- few alternatives

Coverage of currencies in international statistics

	BIS statistics								Other official statistics				
	Int'l banking		Debt securities		GLIs	FX and derivatives ¹			IMF		World Bank		
	LBS	CBS	IDS	DSS		TRI FX	TRI IRD	OTCD	XTD	COFER	CPIS	IIP	QEDS
USD	Dark Green		Dark Green		Dark Green	Dark Green	Light Green	Light Green	Light Green	Dark Green	Dark Green	Dark Green	
EUR			Dark Green			Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
JPY			Light Green			Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
GBP					Light Green	Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
CHF	Dark Green					Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
CNY						Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
AUD						Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
CAD						Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
SEK						Dark Green	Light Green	Light Green		Dark Green	Dark Green	Dark Green	
No of curr ²	5		All		3	39 pairs	39	7	24	8	8	3	3
DC ²	Y	Y	Y	Y		Y	Y				Y	Y	Y
Collected ³	1963	1983	1980s	1990	2011	1986	1995	1998	1993	1960s	1998	1993	2004
Available ³	1977	1983	1970	1989	2000	1986	1995	1998	1993	1995	2001	2015	2012

Dark green indicates country-level data and light green indicates global or regional aggregates.

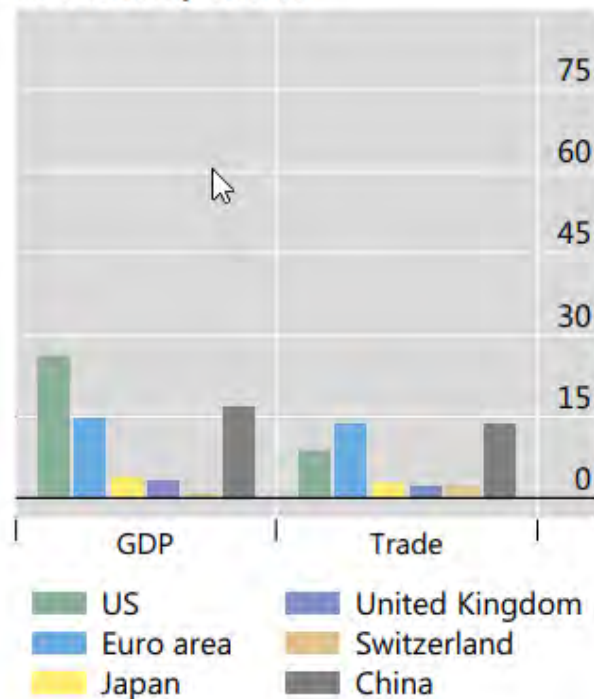
The US dollar remains the dominant currency

- Currency shares in international activity (bars) and offshore activity (crosses)
- Across markets, the use of USD and EUR exceed their shares in GDP and trade
- The international use of CNY falls short of China's weight

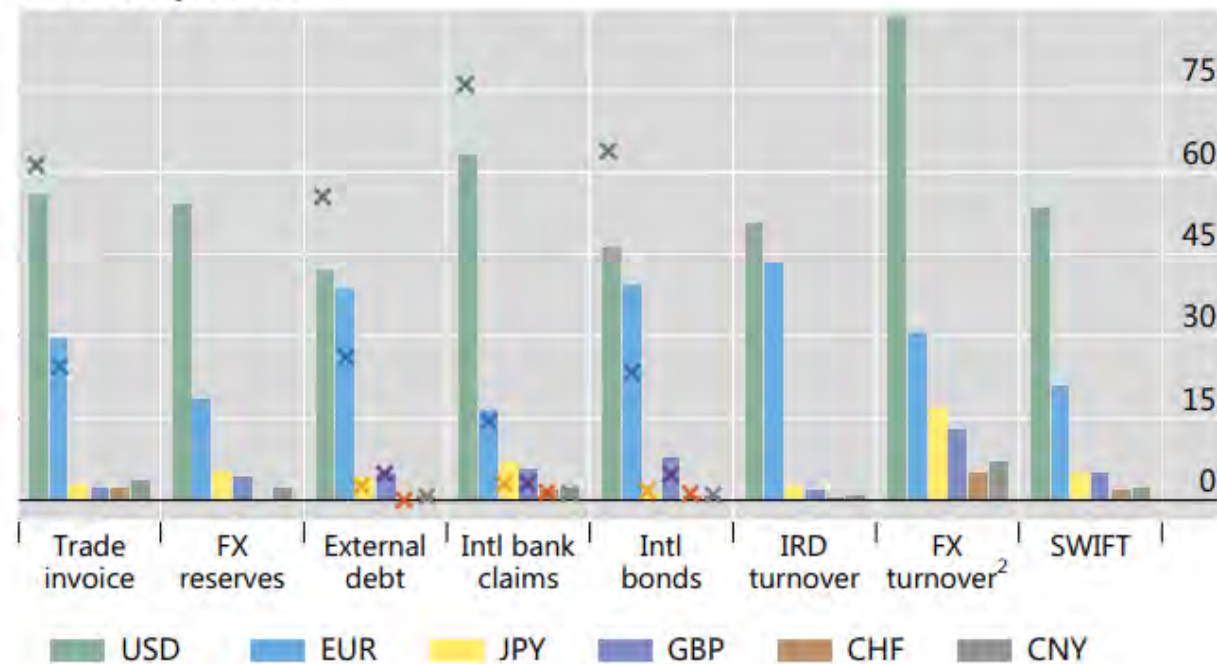
The use of currencies in international finance¹

Latest available data, as a percentage of total, by indicator

A. Economy shares



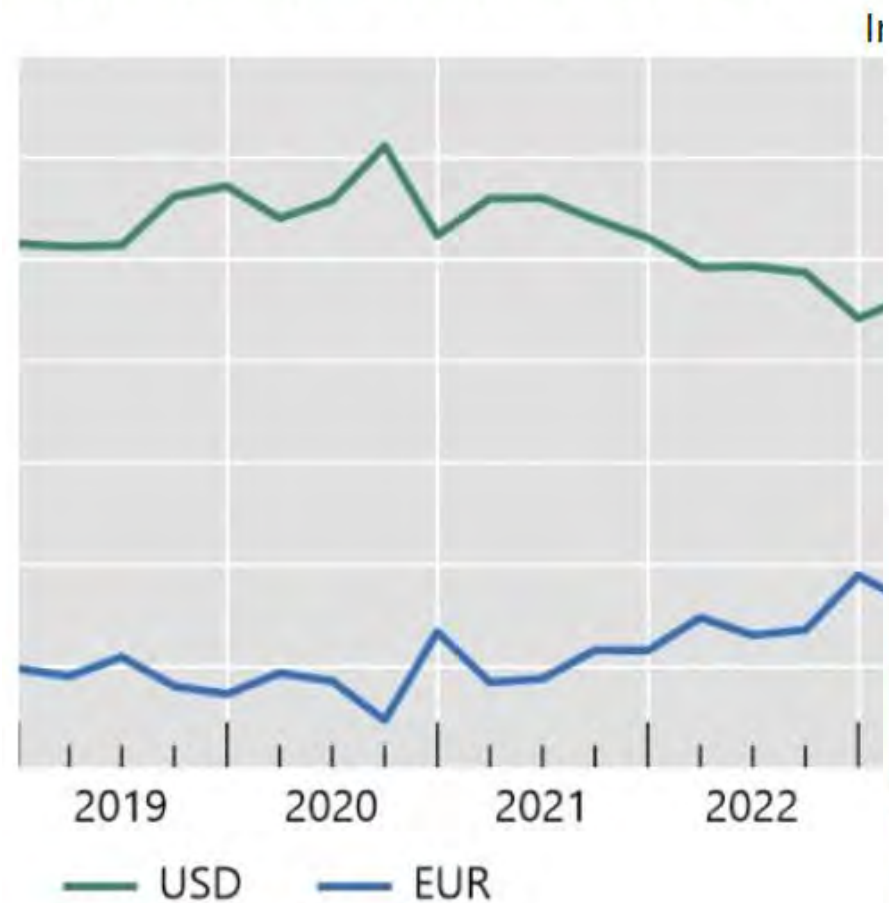
B. Currency shares



CNY makes rapid gains, but from a low base

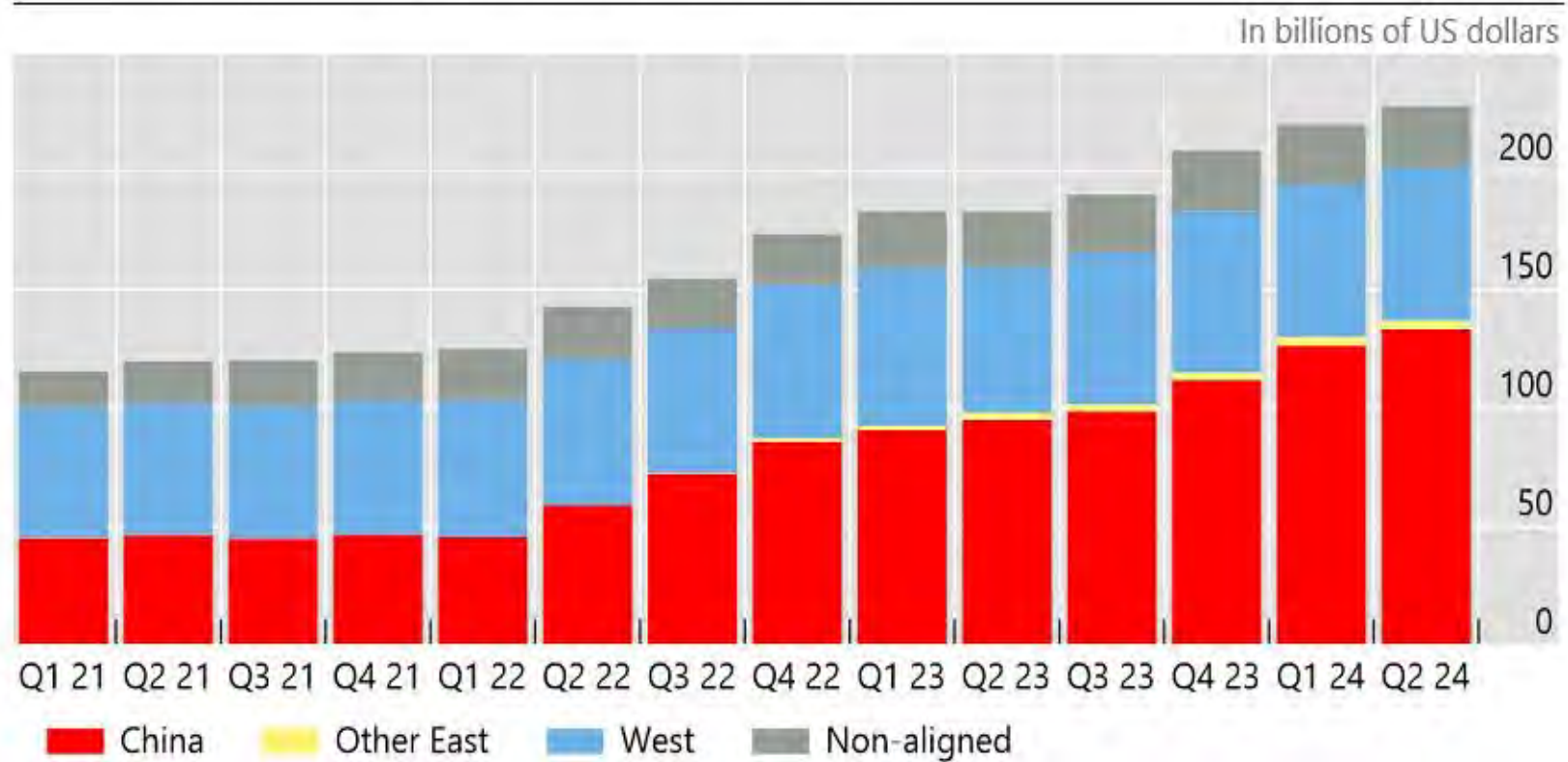
Gross issuance of international bonds

Shares issued in US dollar and euro



RMB-denominated international bonds

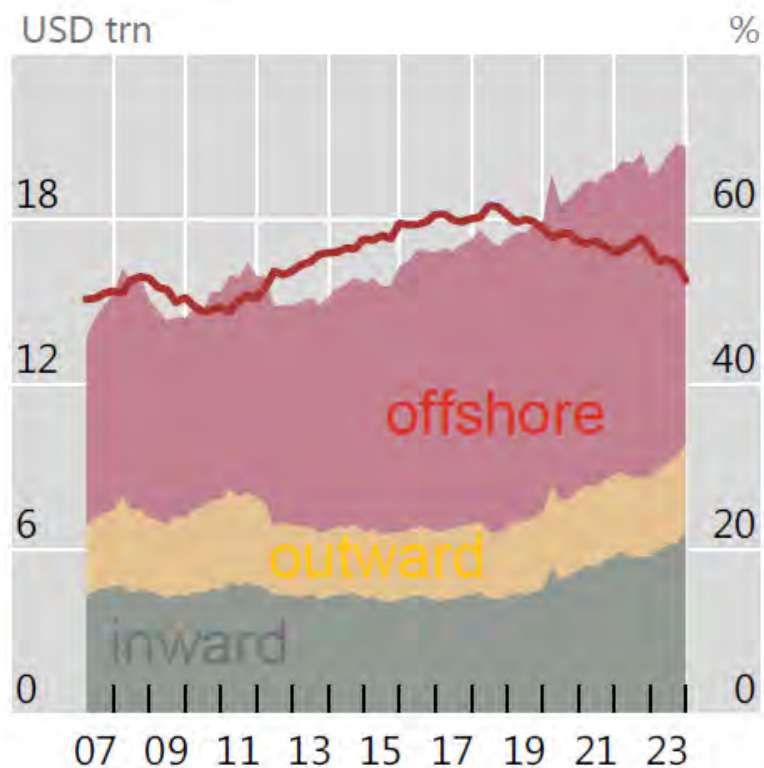
Amounts outstanding, by nationality of issuer (parent)



International use of CNY grows – mostly in China’s orbit

International bank claims by currency and market segment¹

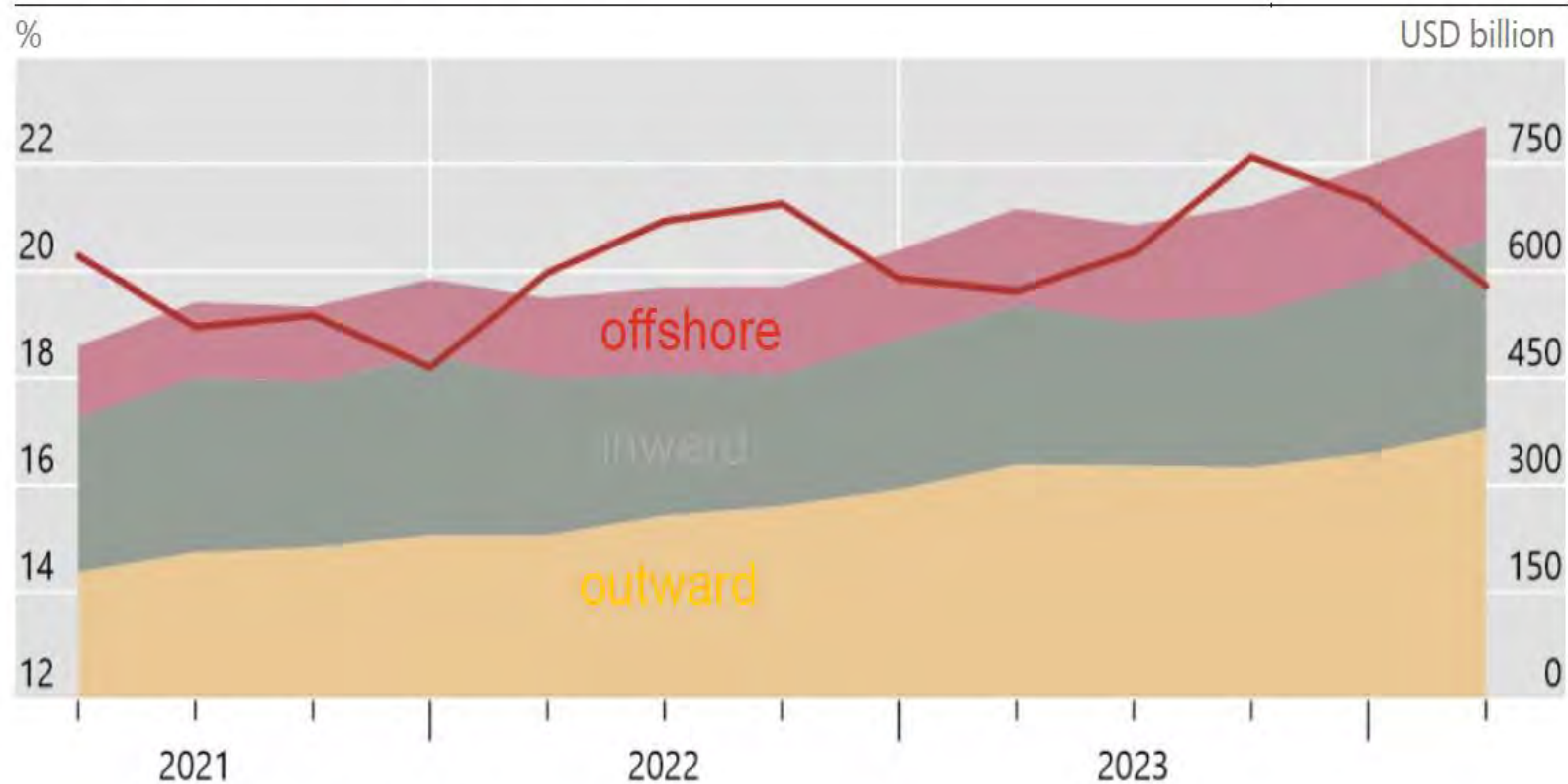
A. US dollar



Amounts outstanding (lhs):

■ Banks outside currency area on borrowers inside currency area²

CNY claims by market segment



■ Banks outside on China

■ Bank in China on borrowers outside

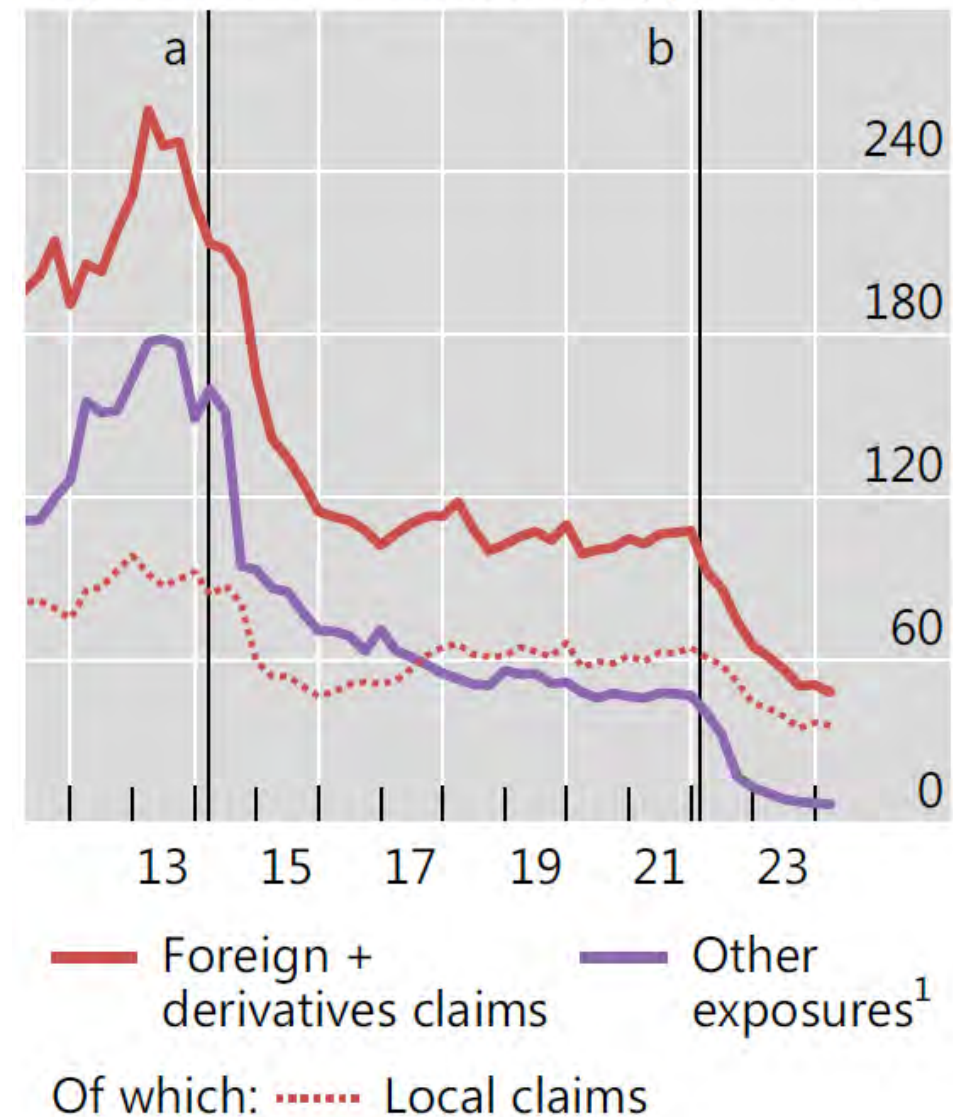
■ Offshore claims

— Share of offshore claims (lhs)

Part B) The geography dimension

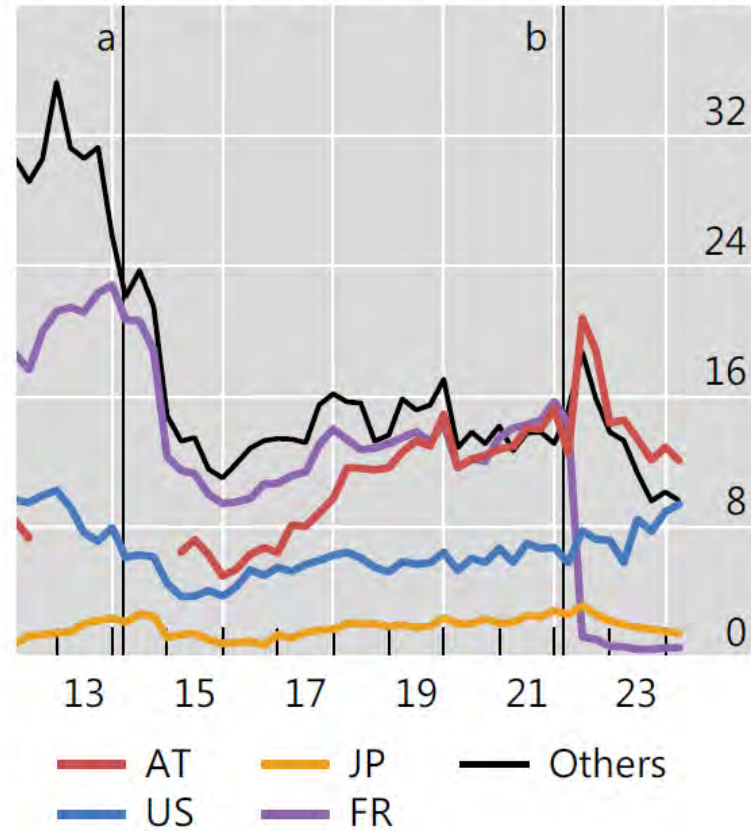
- Case in point: Russia – foreign banks' exposures ([CBS](#))
- Exposures to counterparties in Russia were scaled down
 - Annexation Crimea 2014 + sanctions
 - Invasion of Ukraine 2022 + more sanctions
- When faced with geopolitical risk, foreign banks
 1. reduced lending (red line)
 2. cut credit lines and guarantees (purple line)
- Note: excludes exposures of banks not reporting CBS.
- Note: includes valuation effects in local claims

Exposures to Russia, by type (\$bn)



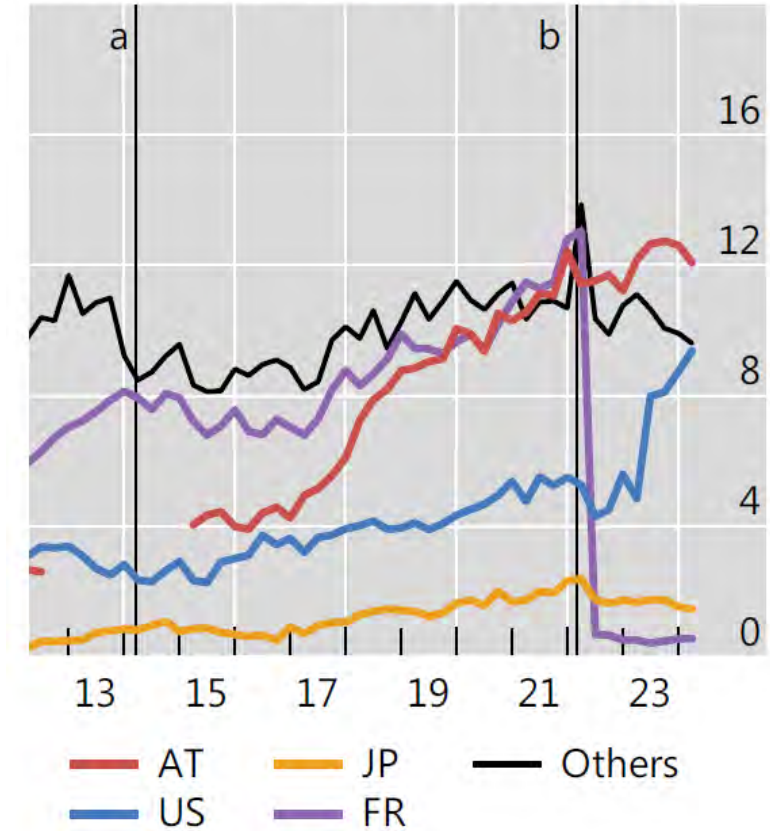
Banks with a local presence can be slower to withdraw

Local claims in rouble, at current \$bn



- Reported LCLC are down
- Driven by rouble depreciation
- Loss to lender, not borrower

Same, at constant \$bn (2024 Q1)

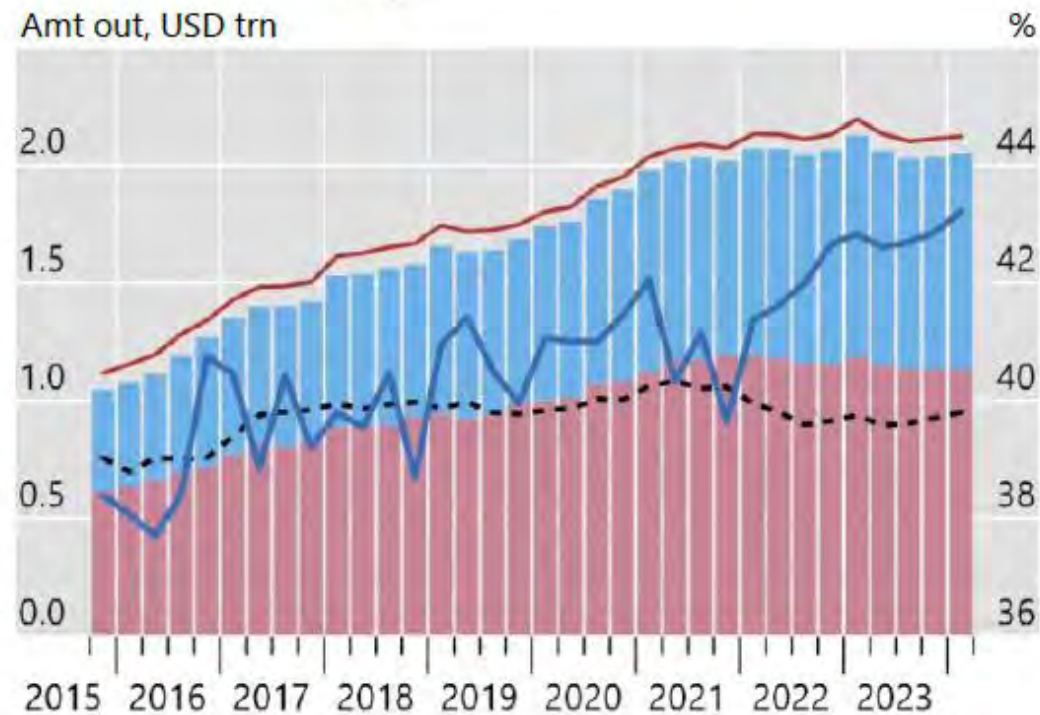


- Rouble claims often remain robust
- Raiffeisen and peers under pressure

Some banking systems act consistent with geopolitical priorities

Cross-border claims of Chinese banks

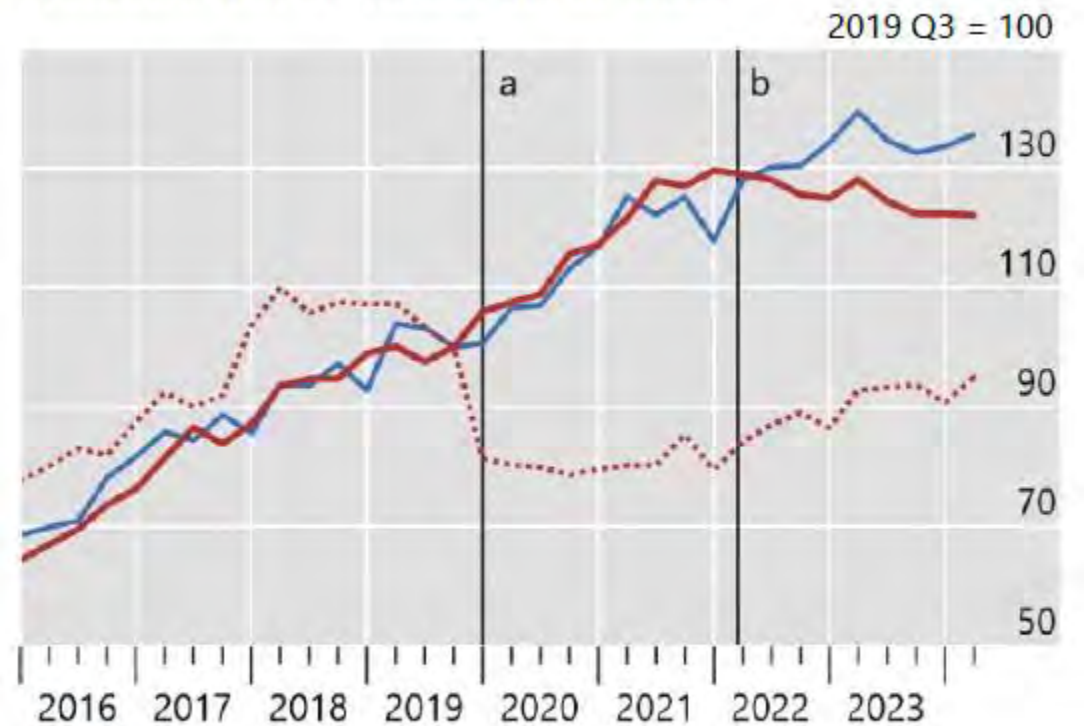
Amounts outstanding



Lhs: — Total
 — AEs
 — EMDEs
 - - - On China (memo)

Rhs: — AEs (share)

Evolution: with or without ties to China

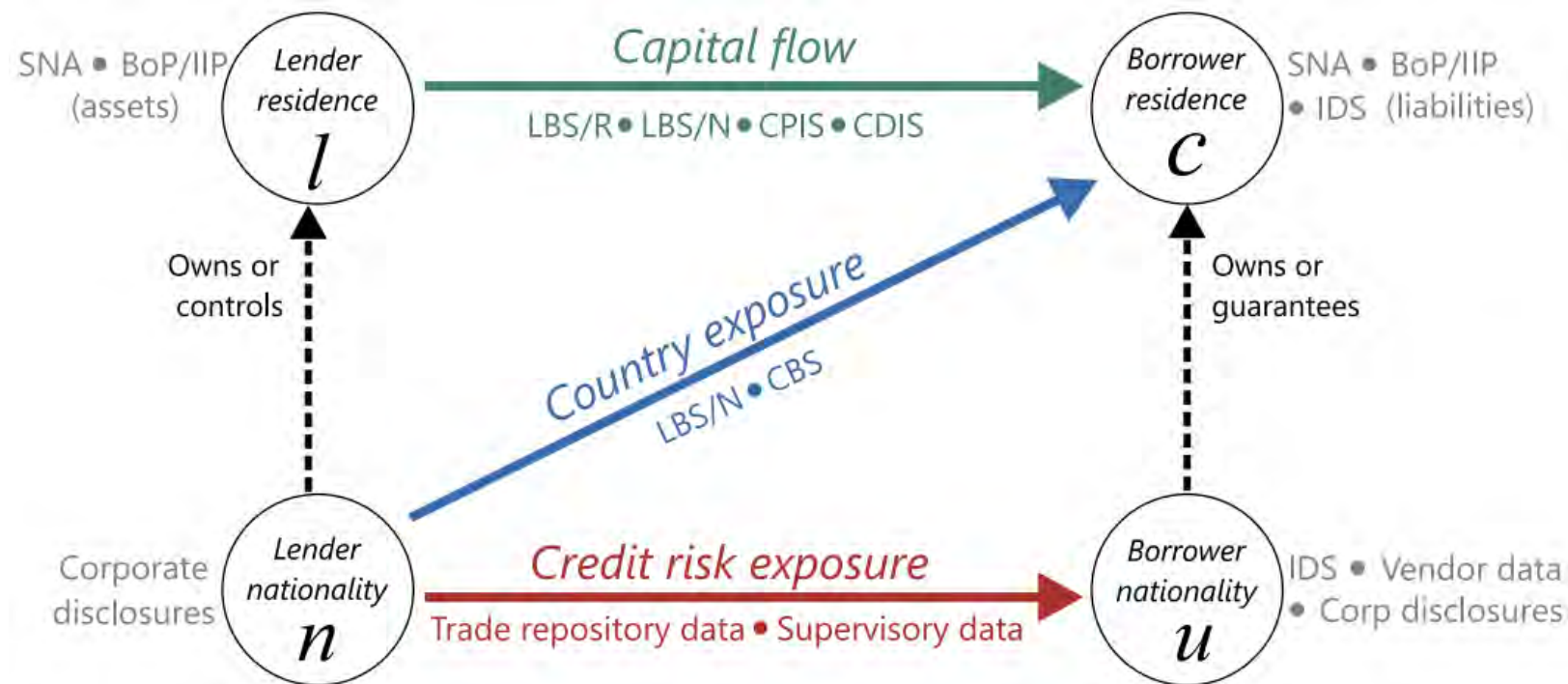


— AEs
 — EMDEs with economic/political ties
 EMDEs with no ties

Do specific cases generalise?

- Alliances, sanctions etc are inherently relational → use bilateral statistics

- Residence or nationality
 - Differences matter: [details](#)
- Each perspective has different
 - Interpretations
 - Data gaps & distortions



Preliminary empirical results

- Capital flows: growth rate of bank claims on [geopolitical differences](#) and sets of FEs

$$g_{ij,t} = \alpha_t + \beta \text{IPD}_{ij,t} + \mu \Delta \text{IPD}_{ij,t} + \varphi \Delta \text{IPD}^2_{ij,t} + \psi_{i,t} + \gamma_{j,t} + \tau_{ij} + \varepsilon_t$$

	Full-sample regressions			Sample splits of pairs that	
	(1)	(2)	(3)	converge	diverge
IPD	-8.13*		-6.20		
Δ IPD		-4.56	-1.38	10.7	-29.8*
Δ IPD ²		-30.1**	-28.9**	66.5*	-59.2**
Constant	39.5***	31.7***	38.5***	29.2***	36.7***
R ²	0.22	0.22	0.22	0.32	0.31
N	163,508	162,839	162,839	78,980	80,010

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

- Findings consistent with idea that geopolitical differences affect capital flows. But...

Unknowns

1. Activity within non-reporting bloc unobserved
2. Int'l activity of NBFIs not captured in detail
3. How to define and measure geopolitical factors



Unknowns 1: the **non-reporting block** is a blind spot

Concentrated reporting structure:

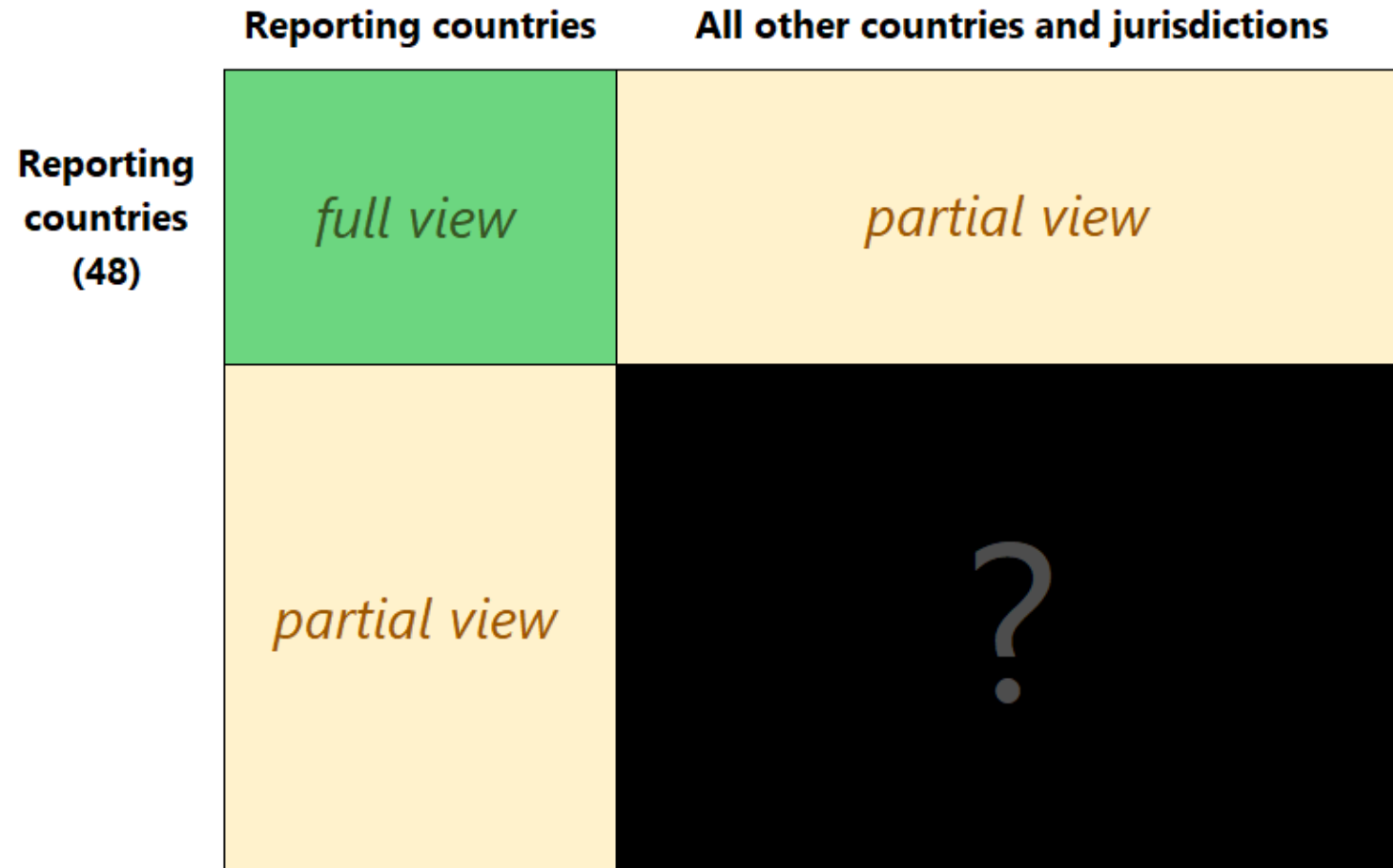
- 48 RCs x 200+ jurisdictions
- Few reporting countries in “East”
- Very few in some regions

Large **non-reporting block**

- Positions likely sparse and small
- But interesting for geopolitics

Compared to trade:

- Fewer bilateral pairs
- But offshore centres covered



Unknowns 2: Coverage of **non-banks**

- Regulation and supervision of non-banks is less strict and more fragmented than for banks
 - Hampers the compilation of statistics on non-banks' global consolidated positions
 - Financial disclosures provide information, but no currency and counterparty breakdowns
- The Second *Data Gaps Initiative* ([DGI-2](#)) called for the collection of more granular data for NBFIs
 - IAIS holistic framework ([info](#)), FSB global monitoring of NBFIs ([report](#))
 - Not available as bilateral datasets
- For the dimensions needed to track geopolitical fragmentation, IMF data
 - CPIS – portfolio investment
 - CDIS – direct investment
 - BIS banking statistics – see non-banks only as counterparties

Unknown 3: **Measuring** geopolitical factors

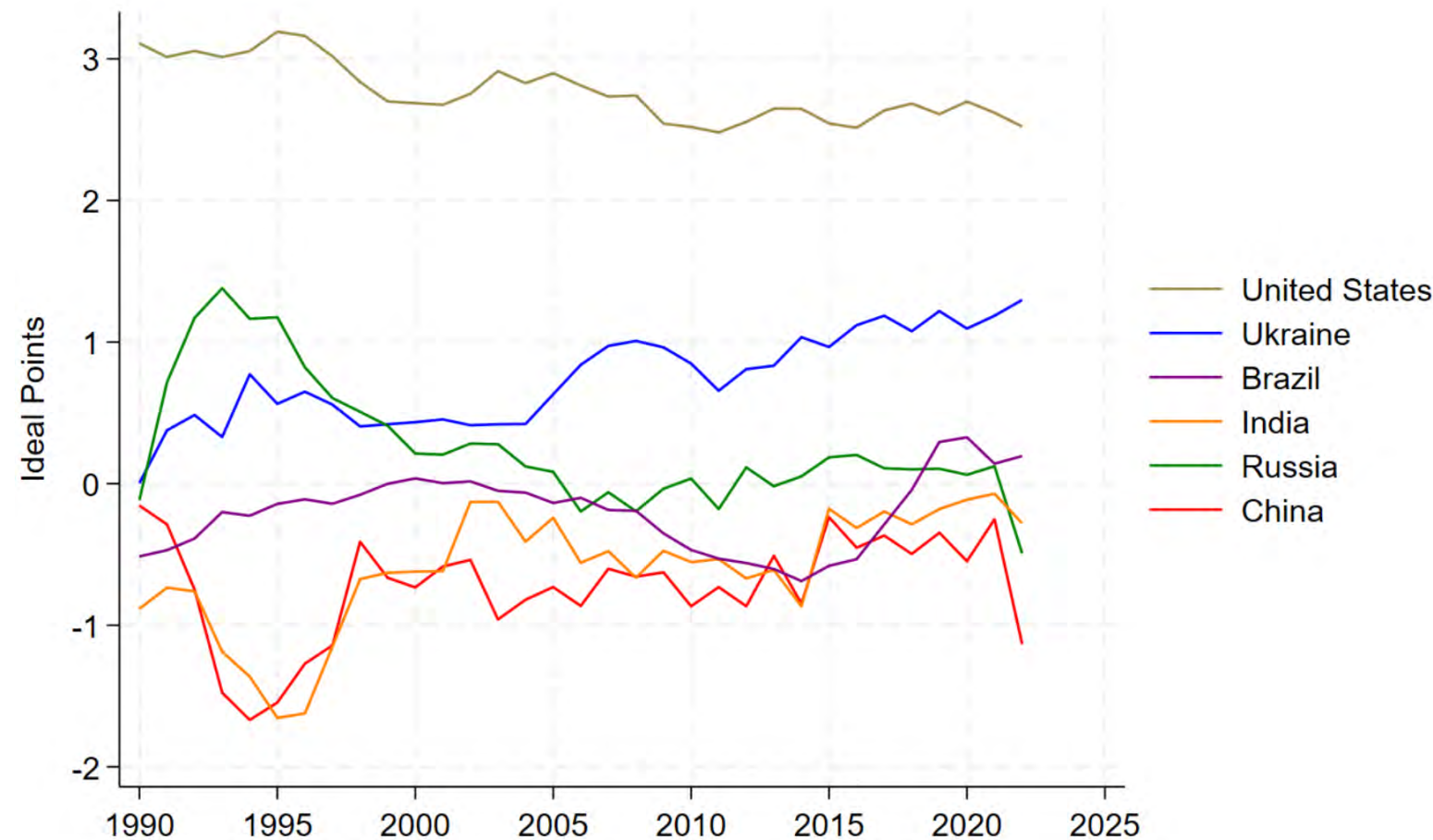
- Popular: “Ideal point” estimates (Bailey et al, 2017), based on UN General Assembly votes

- $IPD_{ij} = |IP_i - IP_j|$

- $\Delta IPD_{ij} > 0$ over time: diverge

- CN/RU and US diverged

- All UN GA votes: not specific
- Alternative: emergency sessions
- Exploratory work under way





Thank you

Extra slides below