



# Structural shifts in the global financial system: implications for financial stability

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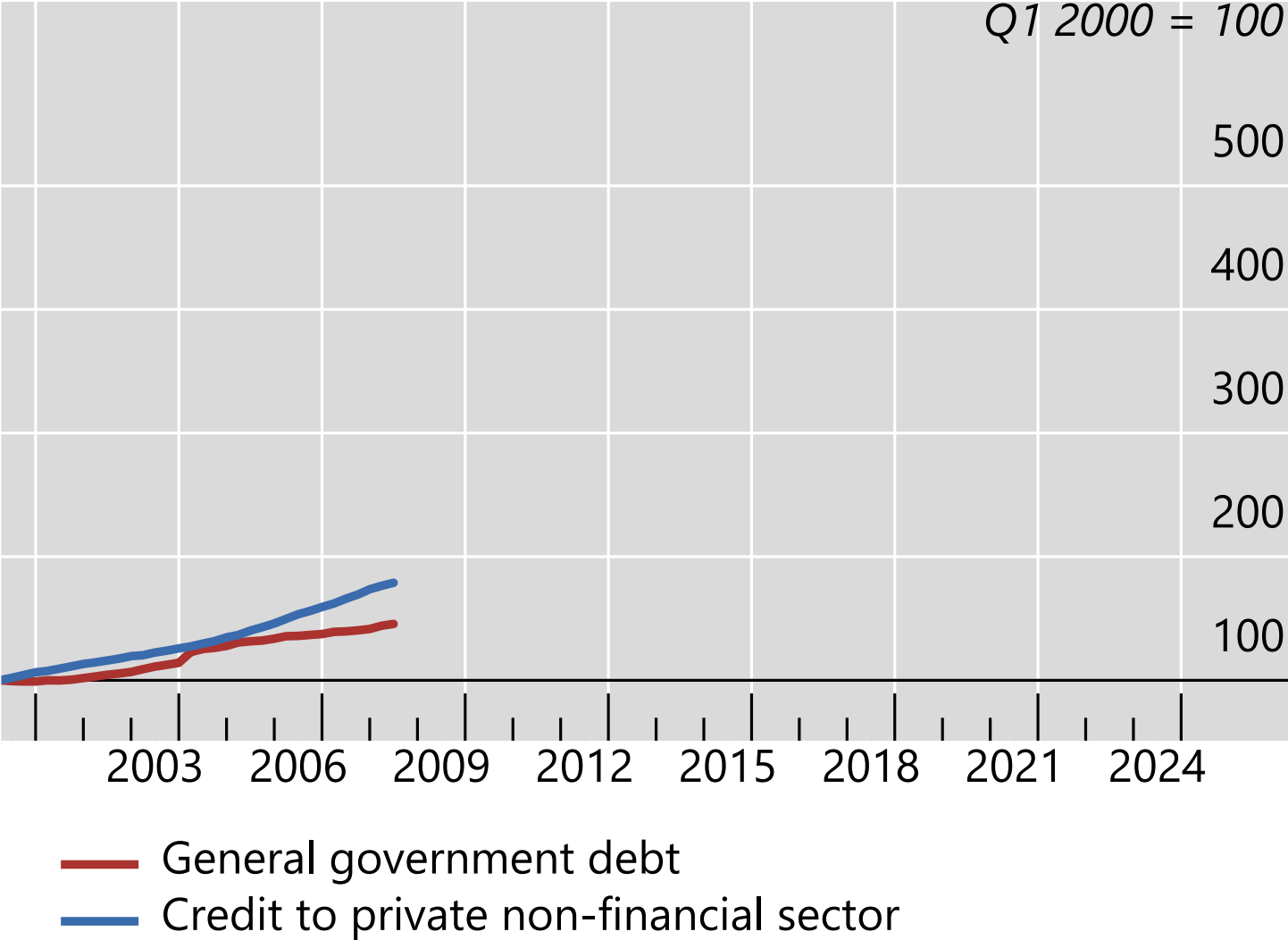
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G20 Global Financial Stability Conference, 3 September 2025

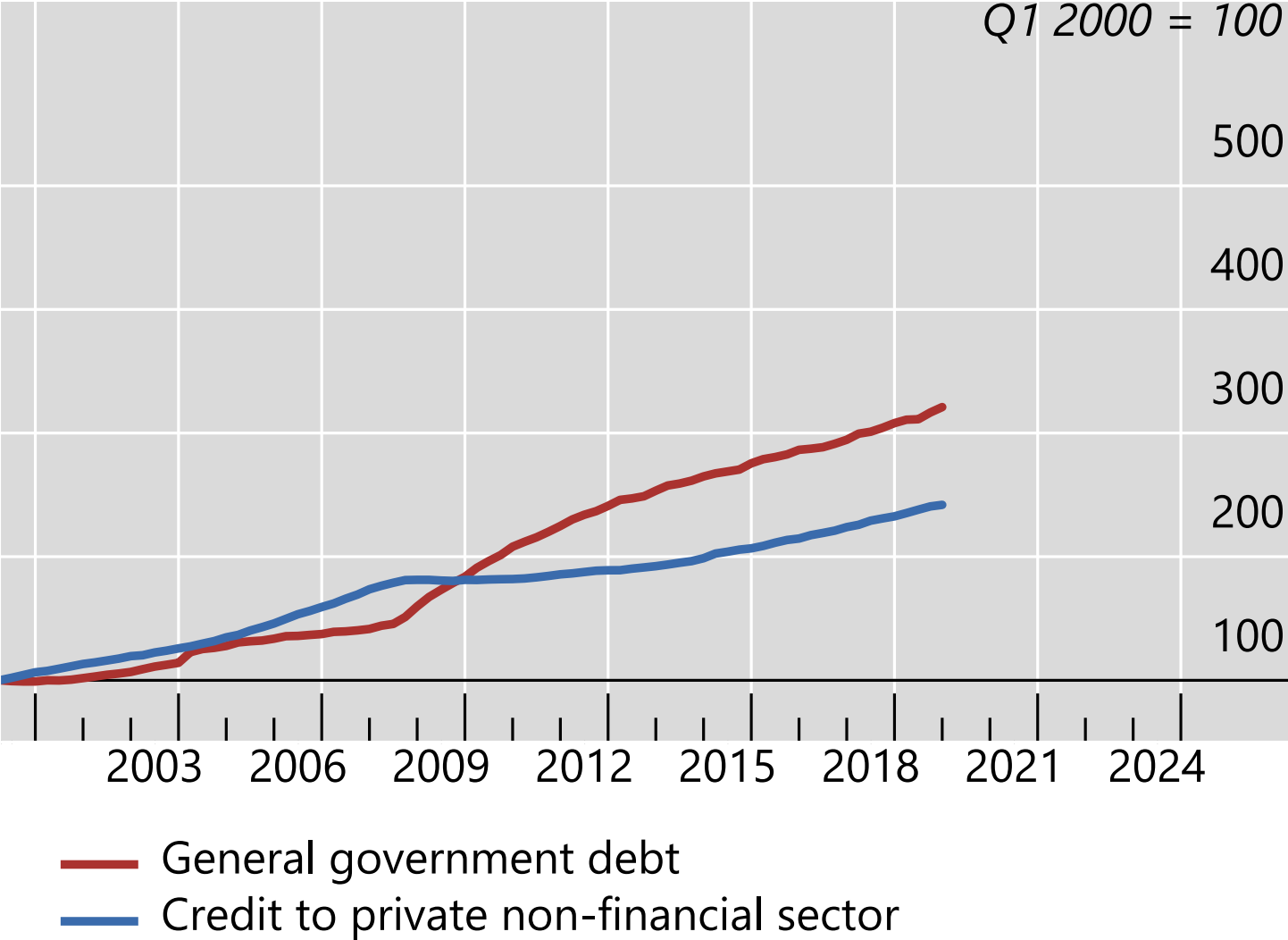
## Sources for my presentation today

- “Financial conditions in a changing global financial system” BIS Annual Economic Report, Chapter II, 2025  
<https://www.bis.org/publ/arpdf/ar2025e2.htm>
- “US dollar’s slide in April 2025: role of FX hedging” BIS Bulletin 105  
<https://www.bis.org/publ/bisbull105.htm>

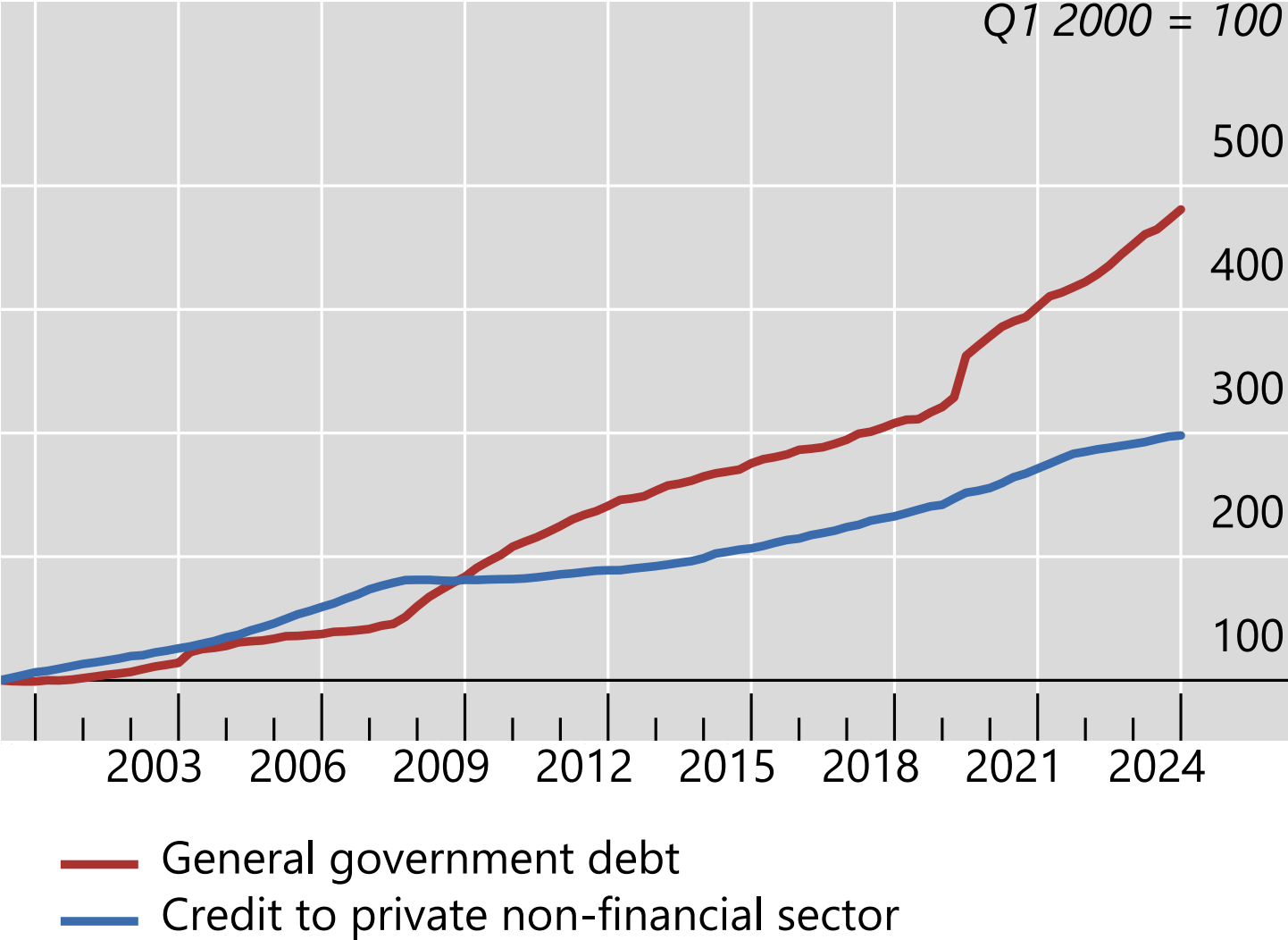
# Before the GFC, credit to the private sector grew faster than credit to government



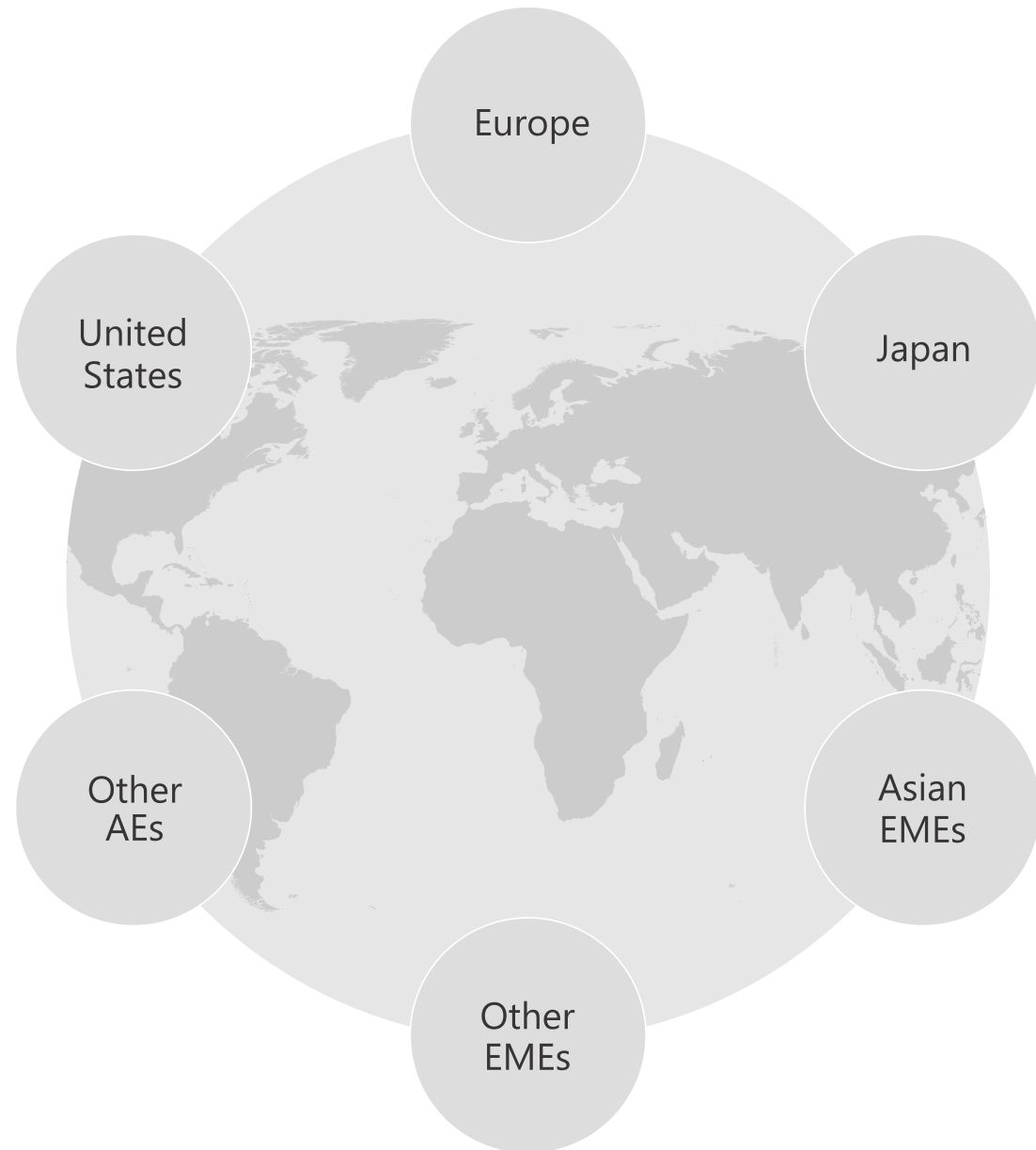
# Credit to government has outpaced credit to the private sector after the GFC



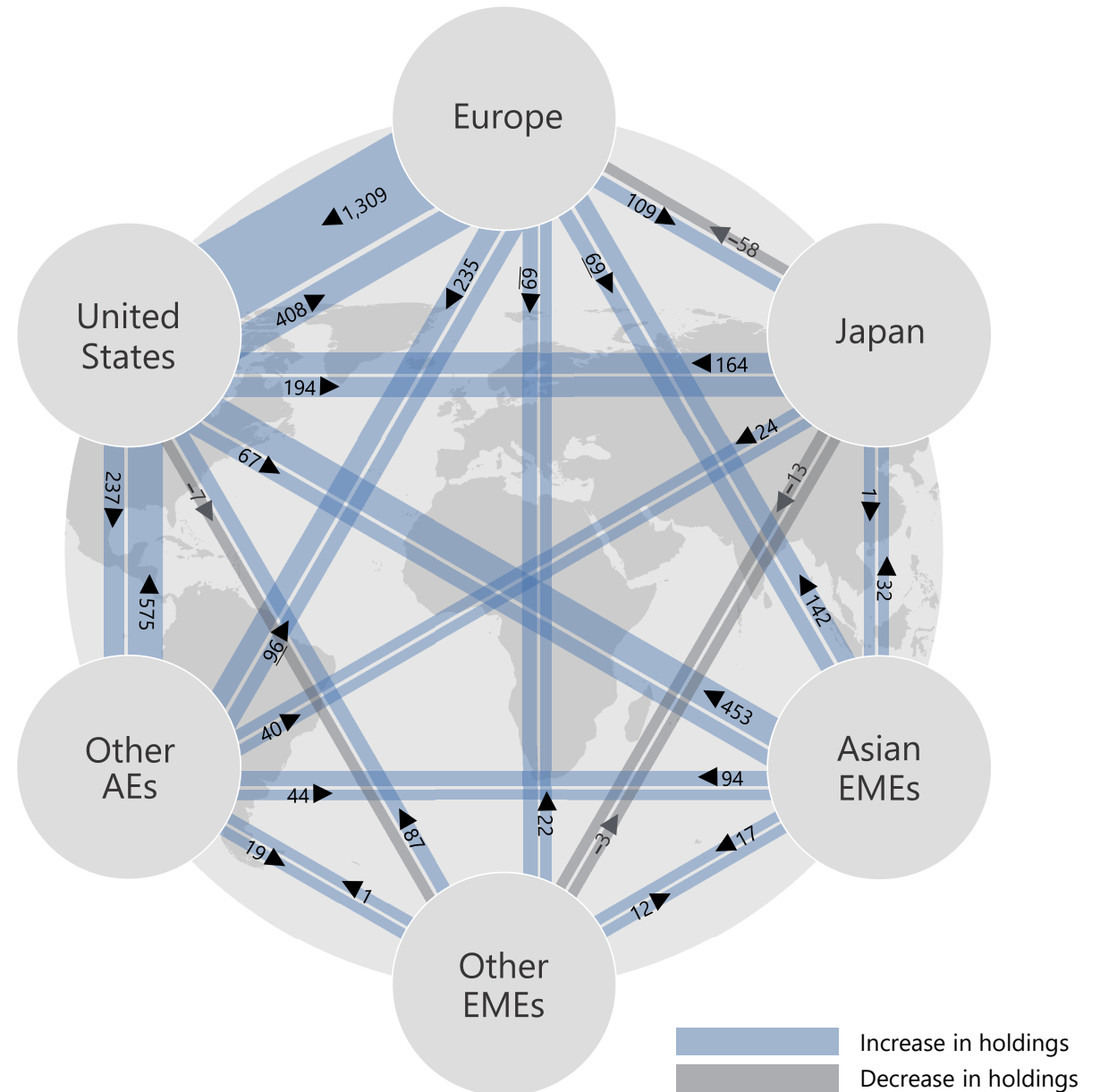
# Policy response to Covid gave this trend a further upward boost



Portfolio flows are  
now centre stage  
as a key driver of  
financial conditions



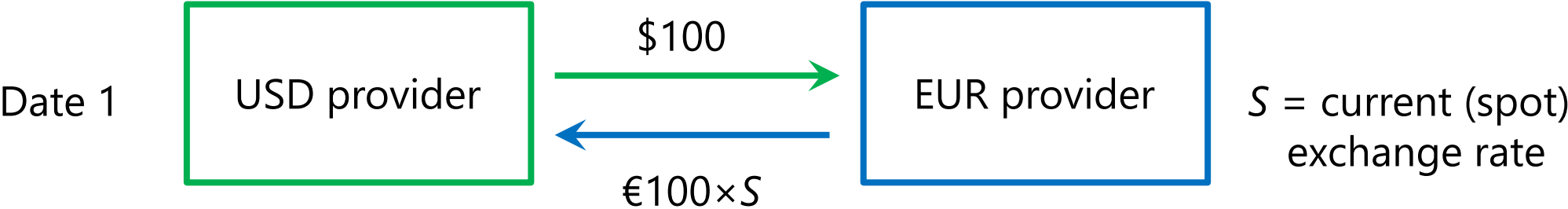
Portfolio flows are now centre stage as a key driver of financial conditions



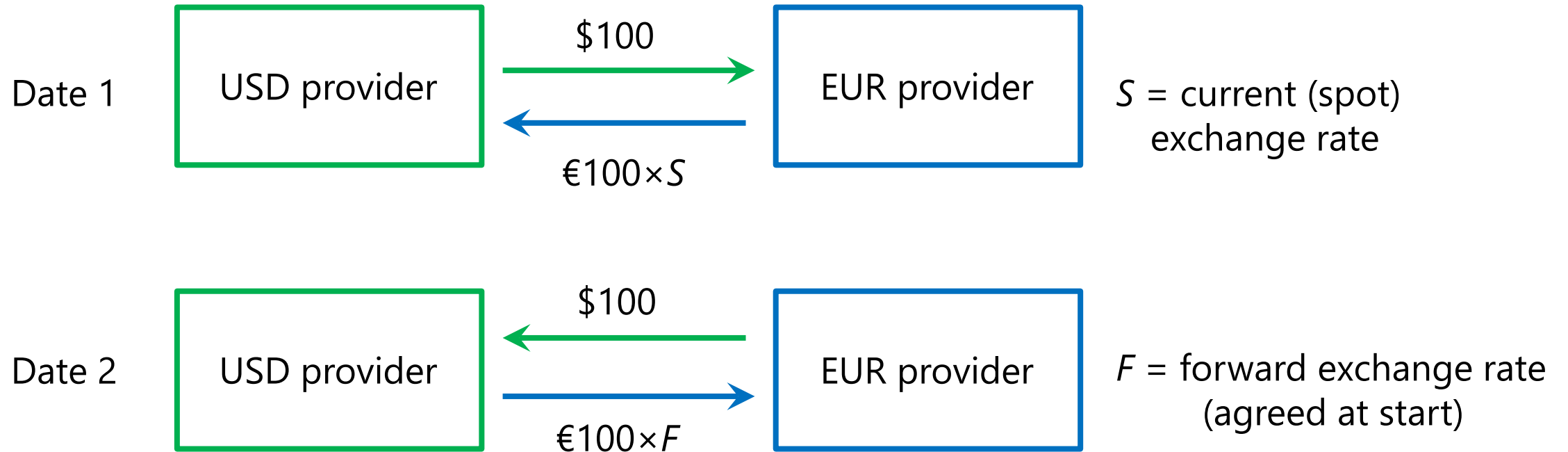
*Changes in stocks over 2015–23, in USD bn*



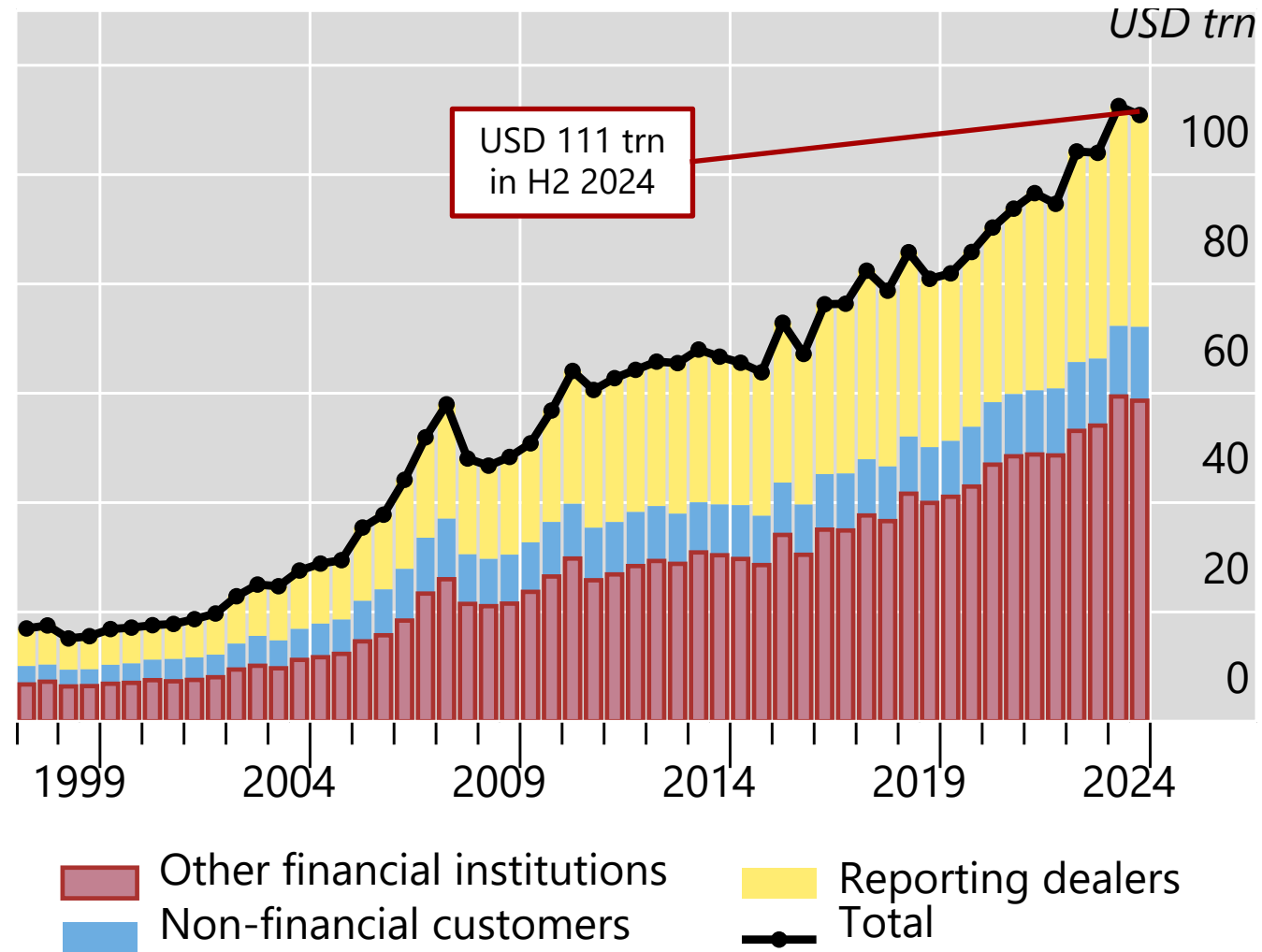
FX swaps are collateralised borrowing operations which make money fungible across currencies



# FX swaps are collateralised borrowing operations which make money fungible across currencies

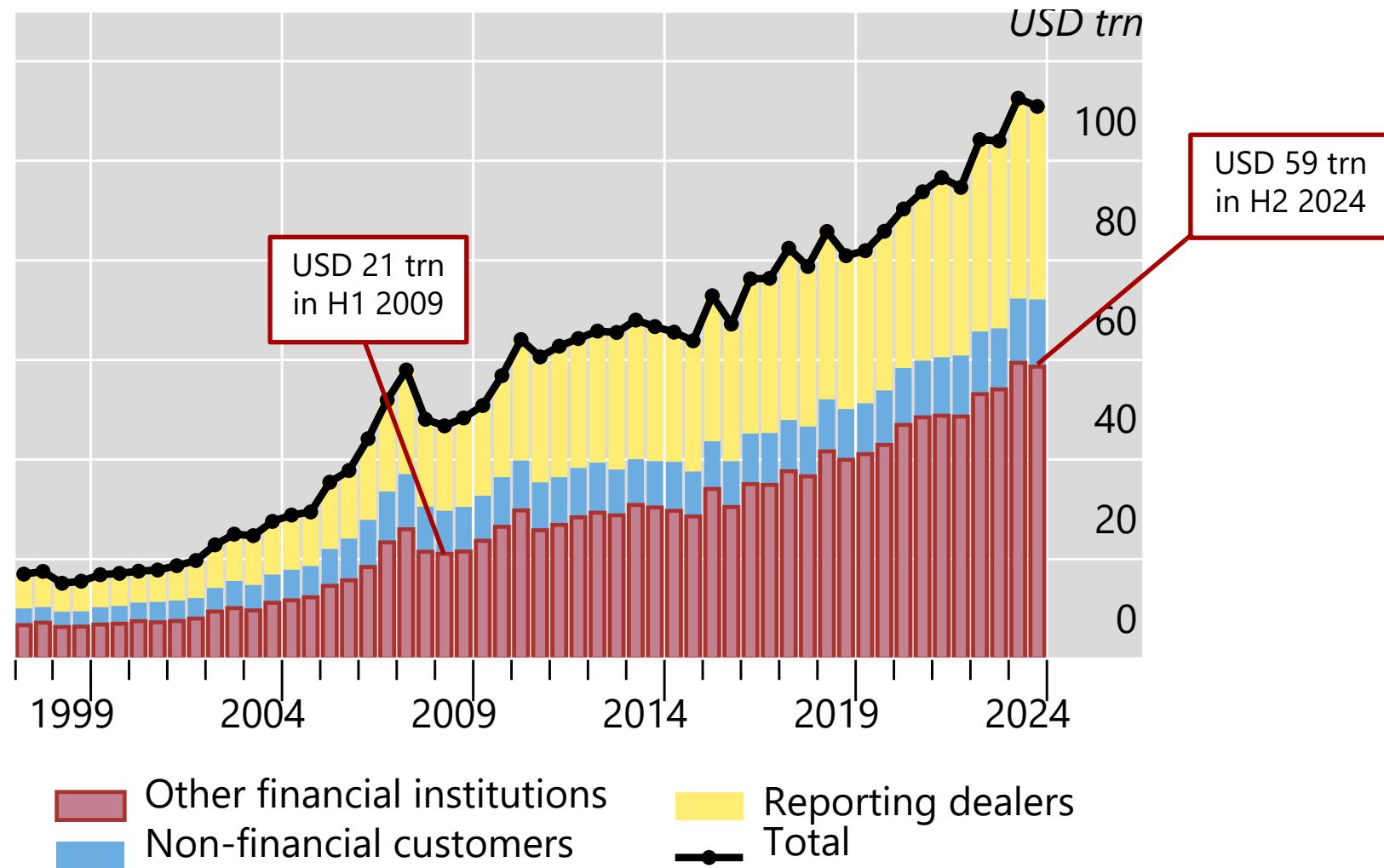


# FX swap market grew rapidly after the GFC, reaching \$111 trillion in 2024



Notional amounts outstanding; including FX swaps, outright forwards and currency swaps.

# Largest and fastest growing segment is for financial use; it has tripled since 2009



Notional amounts outstanding; including FX swaps, outright forwards and currency swaps.

# Balance sheet mechanics of FX swap-enabled bond investment:

Euro-based investor has euros...

Assets	Liabilities
EUR cash	EUR obligations
Other EUR assets	

## Balance sheet mechanics of FX swap-enabled bond investment:

...borrows dollars by pledging euros; has future obligation to repay dollars...

Assets	Liabilities
EUR cash	EUR obligations
Other EUR assets	

Assets	Liabilities
USD cash	EUR obligations
Other EUR assets	
Forward EUR receipt	Forward USD obligation

## Balance sheet mechanics of FX swap-enabled bond investment:

...buys USD securities; currency exposure is hedged

Assets	Liabilities
EUR cash	EUR obligations
Other EUR assets	

Assets	Liabilities
USD cash	EUR obligations
Other EUR assets	
Forward EUR receipt	Forward USD obligation

Assets	Liabilities
USD security	EUR obligations
Other EUR assets	
Forward EUR receipt	Forward USD obligation

## Ex post hedging and the slide in the dollar in April 2025

## Ex post hedging with FX swaps:

EUR-based investor with unhedged USD security ...

Assets	Liabilities
USD security	EUR obligations
Other EUR assets	

## Ex post hedging with FX swaps:

...obtains FX swap so future USD obligation matches USD security...

Assets	Liabilities
USD security	EUR obligations
Other EUR assets	

Assets	Liabilities
USD security	EUR obligations
USD deposit	
Other EUR assets	
Forward EUR receipt	Forward USD obligation

## Ex post hedging with FX swaps:

...sells excess USD cash in spot market

Assets	Liabilities
USD security	EUR obligations
Other EUR assets	

Assets	Liabilities
USD security	EUR obligations
USD deposit	
Other EUR assets	
Forward EUR receipt	Forward USD obligation

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USD security	EUR obligations
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## Financial stability risks

FX swaps are mainly short-term instruments; there are financial stability implications through the banking sector

