

Bank of England

Flight from the Front Line: Geopolitical Risk, Distance, and Capital Flow Dynamics

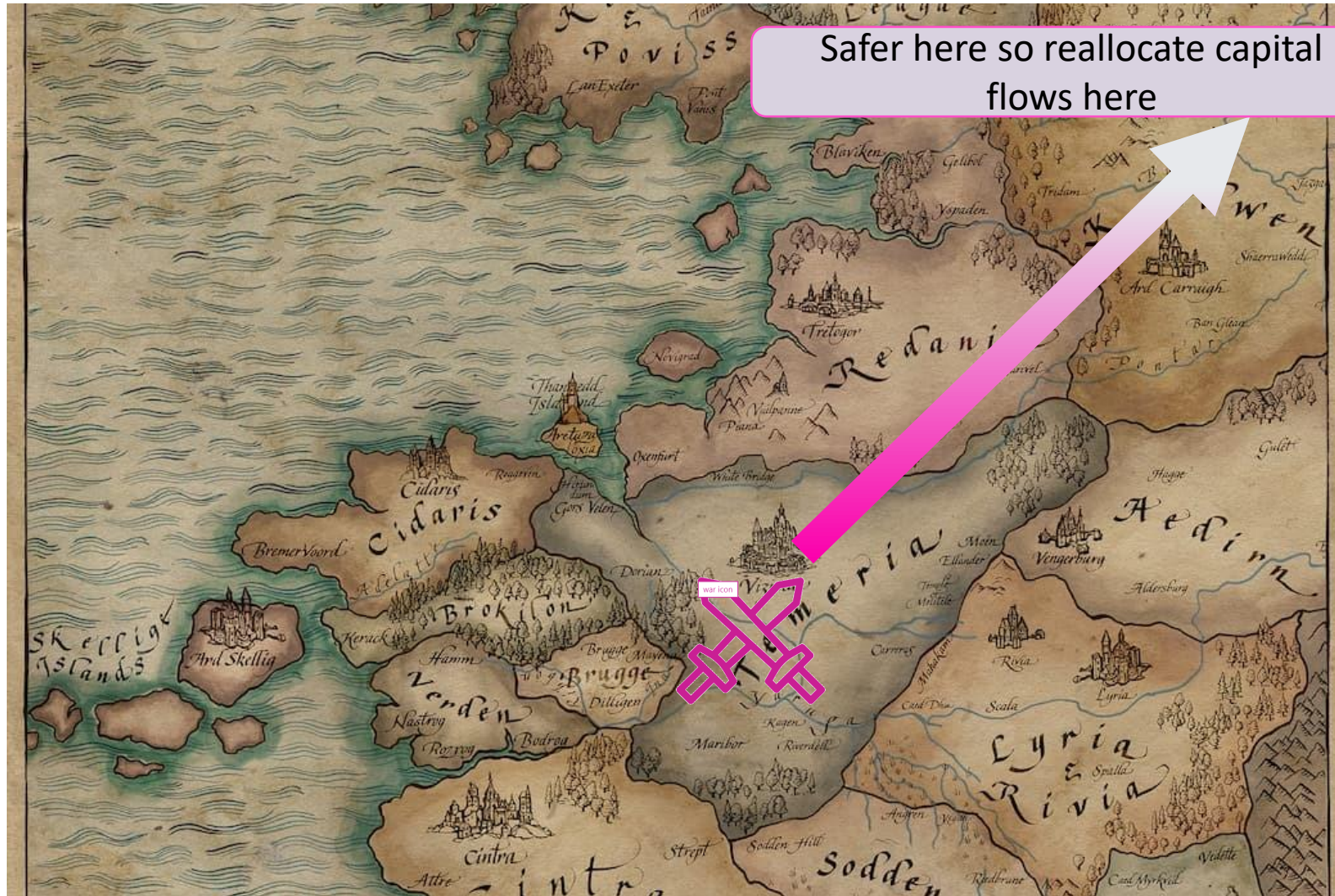
Hodula, Janku and Malovana

Discussion by Rhiannon Sowerbutts.

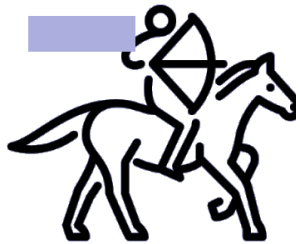
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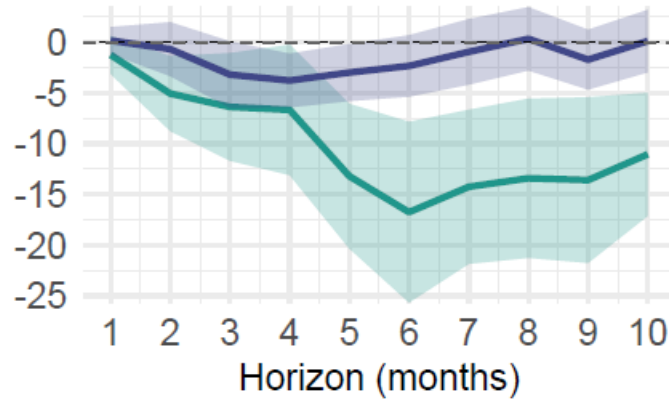
Flight from the front line: how do capital flows reallocate following conflict?



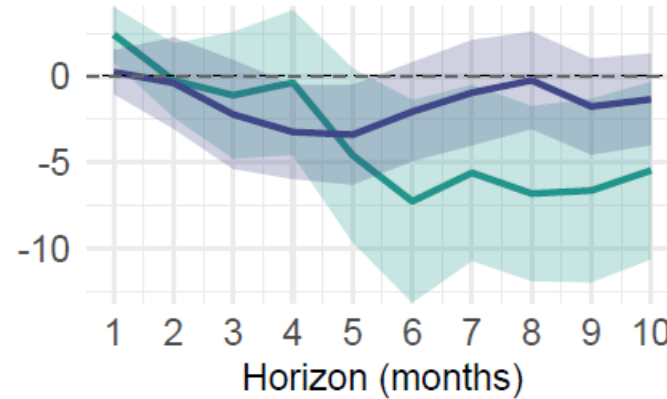
How do investors reallocate? Speed



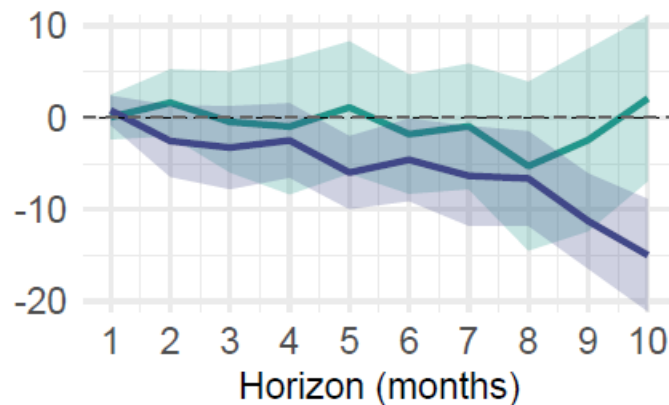
up to 10pct - very close



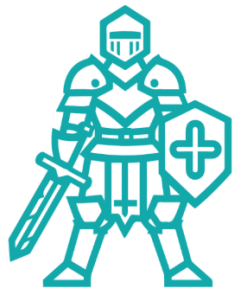
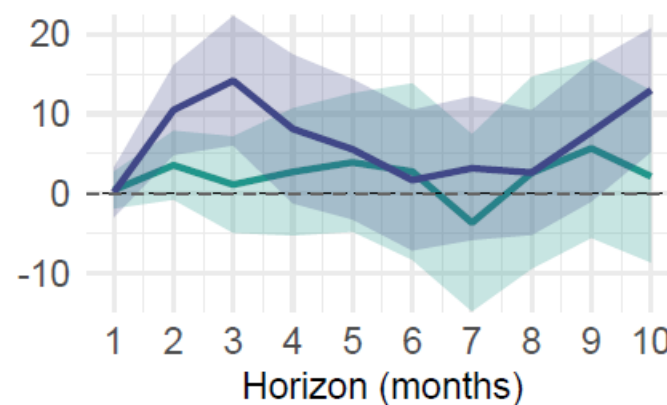
up to 20pct - semi-close



40-60pct - median

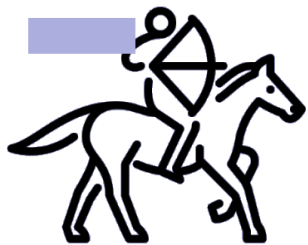


above 80pct - far

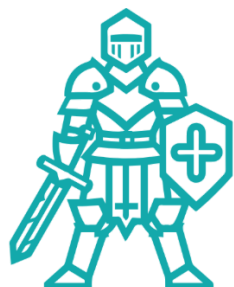


Suggestion: authors focus on the speed. But the “positive” effect on debt flows seems to occur for closer countries than equity. And is a larger magnitude.

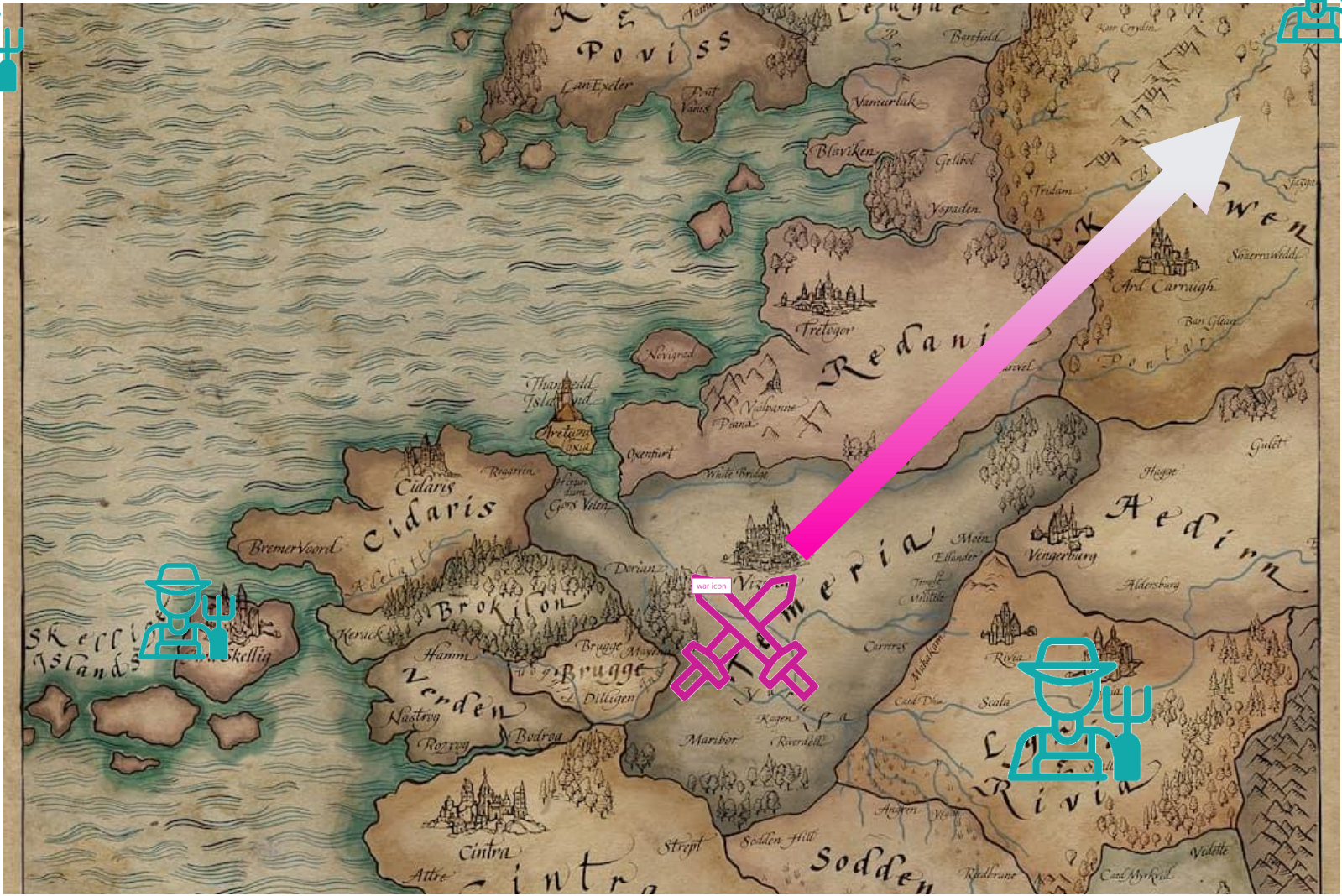
Other more minor suggestions



- Written in billion – difficult to know how much this is, would be much more helpful in percentage terms
- 12 month moving average – but investors likely to react very quickly to an armed conflict – other papers show an insignificant result after a year. Are the authors missing out on a lot of the action
- Can you look at how long capital takes to return after the conflict is over?



Flight from the front line: exercise number 2

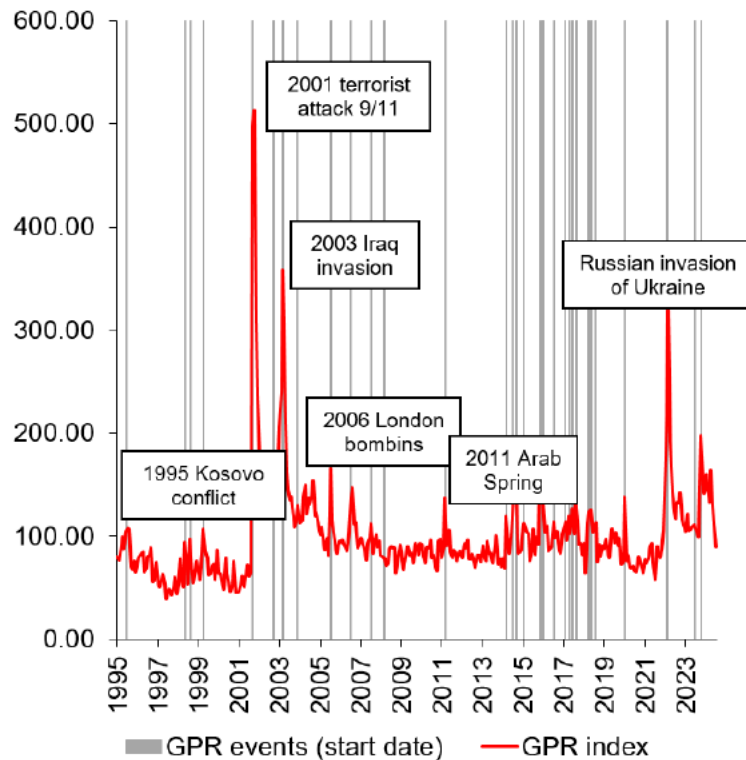


Equity and debt inflows: how do residents of countries near and far react? [Retrenchment?]

Is it geopolitics or is it armed conflict?



Panel A: Global Geopolitical Risk Index and Event Timing

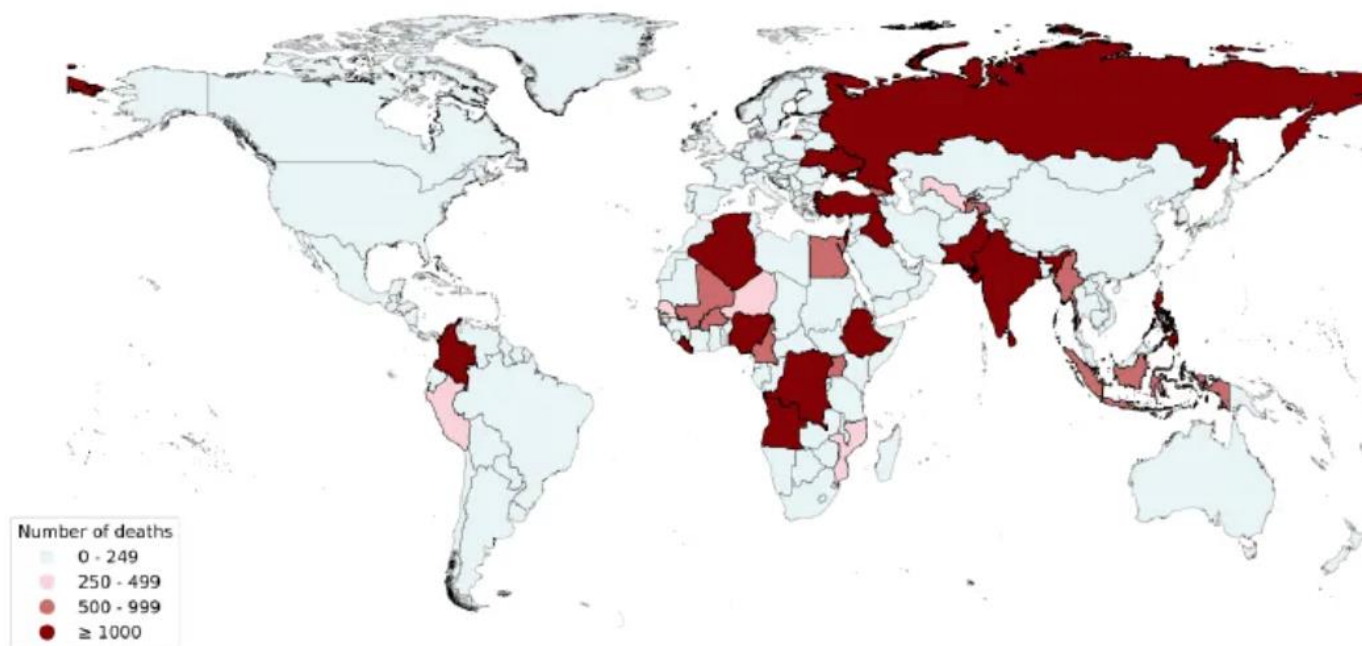


- Some of these armed conflict
- Some of these are not
- Armed conflict databases exist (eg Uppsala dataset)

Suggestion: look at difference between “conflict” and “other geopolitics” capital flows.

Distance measurement: there's not just one war

Figure 1. Conflict Countries by Annual Battlefield Deaths



Note: This figure shows countries where annual battle-field related deaths exceeded 250, 500, or 1,000 at least once during 1989-2020 and where at least one firm received a syndicated loan during this period. The nature and timing of each conflict is described in Appendix Table A.I. Data sources: Uppsala Conflict Data Program and DealScan.

- How is it treated when there is more than one conflict at the same time?
- Lots of elements to “distance” – cultural, similar legal system
- What else minus geographical distance is a “pull” factor. Otherwise Chile is going to receive a LOT of inflows

Concluding comments

- Important topic: the capital flows following geopolitical risk or a conflict
 - Equity and debt flows (compared to say investment funds (Converse and Malucci (2025)))
 - Show the importance of physical distance in capital flow allocation model
 - And lots more to explore
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