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Box 5: Monitoring Geopolitical Factors in the Investment Portfolios of Foreign Reserves - Foreign Reserves Management Report, 2025

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Following the recent increase in geopolitical events that have affected the performance of assets traded in capital markets, the International Investments Department (DII for the acronym in Spanish) decided to establish the Geopolitical Monitoring Group (GSG for the acronym in Spanish) in 2023, through which geopolitical events are monitored, and their impact on managed portfolios is assessed through the publication of a quarterly bulletin. Simultaneously, the GSG has been working on a project to quantify geopolitical risks using various metrics.

Geopolitical risk is often cited as a determining factor in policymakers' and investors' economic decisions. Caldara and Iacoviello (2022) define this risk as "associated with wars, terrorist attacks, and tensions between States that affect the normal and peaceful course of international relations," meaning it captures both the likelihood of disruptive events occurring and the potential escalation of existing events. This implies that geopolitical dynamics may increasingly influence the performance of investment portfolios, and therefore, it is necessary to understand the nature, causes, and consequences of these factors.