

Geopolitical risk—arising from international conflicts, wars, and diplomatic or trade tensions—has recently reached historically high levels. Major global events, such as Russia’s invasion of Ukraine or escalating trade wars, have demonstrated that the effects of such tensions can extend far beyond the directly involved countries, potentially disrupting financial markets worldwide. Understanding how geopolitical instability affects financial institutions is crucial, as banks play a central role in providing credit, supporting businesses, and ensuring economic stability.

This research aims to investigate how war-driven geopolitical tensions influence banks’ lending decisions—specifically examining how these effects spill across borders, and how government-owned banks respond differently compared to private banks. The study focuses on two key questions: First, does heightened geopolitical uncertainty caused by a war conflict lead banks to reduce their lending to businesses located close to the conflict area, even if these areas are not directly involved in the fighting? Second, how do state-owned banks behave differently from privately owned banks during military conflicts and international sanctions?

To answer these questions, the research uses detailed international loan-level data from multiple countries spanning over three decades (1990–2023). The project applies robust causal inference methods, including Difference-in-Differences approaches, to identify the spillover effects of war-related risks by comparing bank lending behavior before and after conflict events, with a particular focus on regions geographically close to conflict zones. Additionally, the study examines whether state-owned banks continue to lend actively during times of crisis—potentially driven by political or strategic objectives, such as supporting critical industries (e.g., defense, energy) or state-owned enterprises. It also explores how international sanctions influence banks’ lending practices differently depending on their ownership structure and the political stance of their home country.

This study is particularly important now, as geopolitical instability has become one of the most significant threats to global economic and financial stability. The results will provide crucial insights for policymakers, central banks, and financial regulators on how best to protect economies and ensure stable credit provision in times of international conflict.