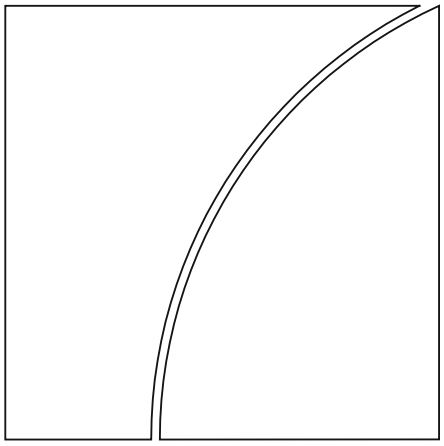

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by Lorenz Emter, Laura Kuitunen, Arnaud Mehl, Peter McQuade, Swapan Pradhan and Goetz von Peter

Monetary and Economic Department

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Keywords: geoeconomics, geopolitics, international finance, global banking, residence, nationality, asymmetric effects, trust

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Global banking and geopolitics through time*

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Abstract

This paper examines asymmetries in the effects of geopolitical events on international bank credit, contrasting adverse events, such as the 2022 invasion of Ukraine, with positive events like the fall of the Berlin Wall in 1989. Using confidential data from the BIS International Banking Statistics from 1977 to 2024, we analyze credit dynamics between up to 12,000 pairs of countries through the lens of their geopolitical differences. Our findings reveal that such differences impact international banking activity over time. Negative events reduce credit by 10-20% more between geopolitical blocs than they do within blocs. In contrast, positive events have no comparable effect on credit, even when boosting trade flows. We hypothesize that this asymmetry stems from the higher level of trust required for international bank credit compared to trade in goods, as the former involves a more pronounced intertemporal dimension, demanding a greater degree of commitment over time.

JEL: F2, F3, D74, H56, N40

Keywords: Geoeconomics, Geopolitics, International finance, Global banking, Residence, Nationality, Asymmetric effects, Trust.

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Introduction

The invasion of Ukraine has sparked a surge in studies examining the impact of geopolitical developments on international trade and finance. While this body of research is compelling, its focus is largely on 2022, offering limited insights into the broader validity of these findings across different regions and historical contexts. Moreover, the literature has largely addressed the effects of *negative* geopolitical events – unexpected escalations in geopolitical tensions – while overlooking the potential effects of *positive* geopolitical developments, such as reductions in tensions. Finally, economic research on geopolitical fragmentation has predominantly concentrated on international trade and foreign direct investment, less on finance. In line with this, a recent survey of the literature on geoeconomics noted that "more work is needed on the role of geopolitics ... in the international financial system" (Mohr and Trebesch, 2024).

This paper seeks to address these gaps by exploring the impact of major geopolitical events, both negative and positive, on international bank credit in a dataset spanning close to five decades. We analyze Russia's invasion of Ukraine in 2022, and compare this event with other negative events – including the annexation of Crimea in 2014, and the invasion of Afghanistan in 1979, which ended the "détente" period between the West and Soviet blocs. We contrast these events with a positive event – the fall of the Berlin Wall in 1989 – and use them as a laboratory for analyzing the confidential bilateral banking statistics from the Bank for International Settlements (BIS). Our dataset contains bilateral cross-border positions for up to 12,000 country pairs at a quarterly frequency from 1977 to 2024, making it arguably the most comprehensive international macro-financial dataset available over such a long historical time frame.

Using gravity equations, we estimate the impact of geopolitical blocs on cross-border bank credit between country pairs, allowing us to identify the distinct effects on credit flows between and within these blocs. Our initial specification is inspired by the methodology of Gopinath et al. (2025), and we allow for two alternative measures of countries' geopolitical differences. All specifications account for time-invariant and country-level unobserved factors that determine credit between country pairs through a large set of fixed effects. This leaves only time variation in *bilateral* positions, the part most indicative of shifting geopolitical allegiances between countries.

Our findings show that geopolitical distance between countries tends to weigh on banking activity between them. A unit difference in the geopolitical stances between two countries is associated with 21% less international credit. On top of this level effect, a unit increase in

geopolitical distance is associated with an estimated 17% reduction in credit.

Most of the empirics in this paper use the BIS locational banking statistics (LBS), the most comprehensive source on international banking available from 1977 on a quarterly basis. The LBS capture the geography of capital flows between countries, in line with other international statistics, such as foreign direct investment (FDI), portfolio investment and trade data used in other research on geopolitical fragmentation. However, residence-based statistics, such as the LBS, may have limitations in this context. For example, sanctions imposed on Russia often target Russian entities irrespective of their physical location, hence measuring a decline in credit flows may require information on the borrower's *nationality*. Similarly, sanctions enacted by a country often have to be observed by banks in that country *and* by their affiliates abroad – even those in offshore financial centers – requiring knowledge of the nationality of banks, wherever they operate.

We thus complement our residence-based results with insights from the nationality perspective provided by BIS consolidated banking statistics (CBS) and syndicated loan data sourced from Dealogic. The CBS also comprise off-balance sheet exposures, such as credit commitments and guarantees. Geopolitical differences affect lending on banks' balance sheets, as well as guarantees and credit commitments off their balance sheets. The least affected component is credit booked by local affiliates *in the borrower country*: local business is largely unresponsive to geopolitical changes, a finding that generalizes the main result of Niepmann and Shen (2025) for US banks.

Perhaps our most striking finding is the *asymmetry* in the effects of geopolitical events. Adverse geopolitical events, such as Russia's invasion of Ukraine, have a pronounced negative impact, resulting in a substantial decline in cross-border credit *between* geopolitical blocs, typically 10-20% larger than credit *within* blocs. This effect is comparable in magnitude to the impact on trade found in previous studies. By contrast, the major positive geopolitical event that we examine – the fall of the Berlin Wall – did not produce a similarly expansionary effect on international credit. This stands in stark contrast to international trade, which witnessed a broad expansion in response to the same geopolitical event.

We hypothesize that the economic mechanism driving this finding lies in the fact that financial transactions fundamentally rely on trust. Credit, especially long-term and unsecured, is inherently more trust-intensive than transactions in goods (Kiyotaki and Moore, 2001, 2002). Financial decisions involve intertemporal considerations, trade-offs between the present and the future, and require a commitment device. Financial liabilities are promises often made unsecured over several years. By contrast, trade in goods entails the exchange of cash for tangible

collateral (e.g. goods in transit), typically over shorter time horizons. When trust is eroded by geopolitical tensions, or when it needs to be (re)established between distant geopolitical blocs, building the trust required for financial transactions proves more challenging than for goods trade. As a result, when geopolitical tensions subside, financial flows between geopolitical blocs recover more slowly than trade flows. The response of finance to geopolitical events tends to be asymmetric, with financial flows failing to expand in response to positive geopolitical events that boost trade at the same time. This is reminiscent of Guiso et al. (2009), who demonstrated that lower bilateral trust reduces trade, portfolio investment, and FDI, with FDI being particularly trust-dependent due to incomplete contracts. Suggestive evidence and contemporaneous accounts in the 1990s support these views.

Related literature. Aside from the aforementioned studies, our paper contributes to several strands of literature. First, it builds on existing research on geopolitics and financial fragmentation. For instance, Kempf et al. (2023) find that ideological distance between countries affects the size and direction of capital flows; Aiyar et al. (2024) and Gopinath et al. (2025) show that FDI and portfolio flows increasingly correlate with geopolitical tensions since the invasion, while Catalan et al. (2024) provide evidence that investment funds allocate smaller shares of their portfolios to recipient countries that are geopolitically more distant to their country of origin. We extend this literature by exploring a mechanism through which the effects of geopolitical events manifest, using the unique perspective of international banking throughout history. Pradhan et al. (2025) find that geopolitical tensions dampen cross-border bank lending, but the longer time-span covered in our paper enables us to provide a historical perspective and explore asymmetries in response to positive and negative geopolitical events. We also provide more nuance on how geopolitical blocs can be defined and grounded in countries' voting in the UN General Assembly than previous papers.

The paper provides empirical backing to the burgeoning field of geoeconomics – a second strand of literature to which our paper relates to – including Clayton et al. (2023), Mohr and Trebesch (2024), Broner et al. (2024), and Clayton et al. (2025), by examining financial fragmentation over the longer term. Our paper is most closely related to Niepmann and Shen (2025) who use supervisory data to show that US banks respond to elevated geopolitical risk by reducing cross-border lending while maintaining lending through foreign affiliates – a finding we confirm for a larger sample of bank nationalities. In so doing, the paper adds to the body of work on international banking – e.g. Avdjiev et al. (2018), McCauley et al. (2019) and Broner et al. (2023) – by incorporating a focus on geopolitical factors.[1]

[1]Although they focus on more recent events, other new papers in the emerging literature on the effects geopolitical events on banking include McQuade et al. (2025); Dieckelmann et al. (2025); De Haas et al. (2025);

Finally, our paper provides a novel angle on the literature on the complementarities between trade and finance, such as Aviat and Coeurdacier (2007), Lane and Milesi-Ferretti (2008), Antras and Caballero (2009), Taylor and Wilson (2011), Manova et al. (2015) and Brei and von Peter (2018). In highlighting how positive and negative geopolitical events affect their interaction, our findings underscore that banking and trade need not go hand in hand.

The paper is structured as follows. Section 1 presents data on geopolitics and banking, and sketches aggregate stylized facts. Section 2 discusses the methodology and our main findings for various geopolitical events through time. Section 3 compares the results with those observed for trade flows and explores the hypothesized role of trust in explaining asymmetries in the impact of geopolitics on global banking. Section 4 concludes and draws implications for policy.

1 Data on geopolitics and banking

1.1 Geopolitical events

Our starting point for examining the impact of geopolitical events on international bank positions is Russia's invasion of Ukraine in February 2022, which escalated geopolitical tensions by provoking widespread condemnation and sanctions from Western countries. The invasion also strained global diplomatic relations, especially with China and neighboring nations.

To expand the scope, we also consider two other adverse events that triggered surges in geopolitical tensions. One is Russia's annexation of Crimea in February 2014. The annexation was seen as a formative event challenging the post-Cold War European order.[2] The other adverse event we examine is the Soviet Union's invasion of Afghanistan in 1979, which ended the "détente" – the period in the 1960s and 1970s marked by improved relations and nuclear arms control agreements between the two blocs. The Soviet invasion of Afghanistan in December 1979 led to a re-intensification of the Cold War and to the "death of détente" (Simes (1980)).[3] During this

Pradhan et al. (2025).

[2]In particular, it led to the suspension of Russia's participation in the Group of Eight (G8) leading powers – reducing it to a Group of Seven (G7). The West, led by the US and the EU, responded with economic, financial and other sanctions against Russia, while NATO increased its presence in Eastern Europe. The conflict resumed as a frozen conflict with periods of escalation until the 2022 invasion.

[3]The Soviet Union supported the Afghan communist movement, while the United States supported the Afghan anti-Soviet insurgents. The military involvement in Afghanistan exacerbated the arms buildups of the two superpowers well into the 1980s, even as the Soviet Union faced increasing economic strains. For instance, under President Reagan, the US increased defense spending and adopted a more aggressive stance with initiatives like the Strategic Defense Initiative, in defense of potential nuclear attacks from the Soviet Union.

earlier era, the West provided limited international credit to the Soviet bloc, led by Austrian, French, German, and Italian banks. Finally, the major episode of reduction in geopolitical tensions we consider is the fall of the Berlin Wall in November 1989, heralding the end of Cold War. Some observers (e.g. Fukuyama (1992)) saw this moment as the "end of history".[4] Appendix A shows the extent to which these geopolitical events are reflected in the geopolitical risk index (GPR index) of Caldara and Iacoviello (2022).

1.2 Geopolitical blocs

We analyze geopolitical blocs using countries' voting patterns in the UN General Assembly (UNGA). The use of UNGA voting for measuring foreign policy preferences has a long tradition in political science. Bailey et al. (2017) proposed a dynamic spatial model to estimate *ideal points* on a single dimension that reflects state positions toward the US-led liberal order. Their estimates yield a country panel of annual ideal points, with the US taking the top position in the ordinal ranking. These estimates naturally lend themselves to measuring geopolitical distance between country pairs. Bailey et al. (2017) transform ideal points into bilateral measures by taking the absolute distance between the ideal points of two countries, defining the *ideal point distance* (IPD) between country i and j at time t as

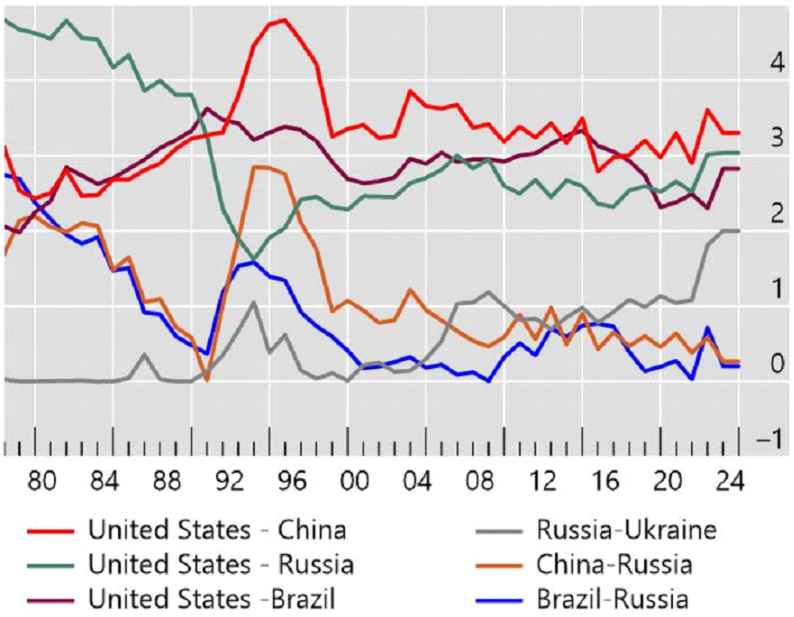
$$IPD_{ijt} = |IP_{it} – IP_{jt}|. \tag{1}$$

Figure 1 displays the evolution of ideal point distances for selected country pairs. These IPDs can be used to form geopolitical blocs. Gopinath et al. (2025) divide the world into three groups based on 2021 IPDs: a US-leaning bloc comprising countries in the top quartile in their geopolitical proximity to the US ("West"), a China-leaning bloc comprising the quartile of countries with the smallest IPDs to China ("East"), and all others taken as "non-aligned". While the use of the IPD is well-established in the international relations literature, constructing geopolitical blocs based on IPD differences using statistical quartiles can be criticized as arbitrary. We address this methodological limitation by complementing the approach of Gopinath et al. (2025) with two alternatives. One is to employ the observed IPDs between any two countries as

[4]The weakening of Soviet influence in Eastern Europe and Mikhail Gorbachev's reforms in the mid-1980s promoting openness and restructuring (also known as *glasnost* and *perestroika*) led to a reconfiguration of Russia's political ties with the West and Russia's neighbouring states, many of which were ex-Soviet states. A series of important events followed from the fall of the Berlin Wall and contributed to end the Cold War, including the German Reunification in October 1990, the dissolution of the Soviet Union in December 1991, and the founding of the European Union by the Maastricht Treaty's entry into force in November 1993.

a panel variable in regressions, instead of inferring blocs from IPDs. This approach eliminates the need to divide UN members into blocs of arbitrary sizes, which may lack a meaningful connection to the geopolitical stance of UN members.

Figure 1: Evolution of geopolitical distance over time for selected country pairs



Source: Bailey et al. (2017) and authors' computations.
Note: The figure displays the evolution between 1977 and 2023 of the IPDs for selected country pairs.

Even so, the construction of IPDs relies on UNGA voting patterns across a wide range of issues, many of which are unrelated to geopolitics, presenting another methodological limitation.[5] Our second alternative thus focuses on votes particularly relevant to the geopolitical event of interest. We thus propose an alternative bloc definition centered on the single most divisive UNGA vote following Russia's invasion of Ukraine.[6] The UN's *Eleventh Emergency Special Session (ES-11)* comprised six GA votes between March 2022 and March 2023. Several resolutions can be viewed as symbolic expressions of support for peace in Ukraine. The vote on 7 April 2022, however, went further in sanctioning Russia by suspending its membership in the UN Human Rights Council. This is a singular event: no permanent Security Council member had ever been

[5]This limitation is also acknowledged by Bailey et al. (2017), who provide options in their code to construct the IPD based on specific categories of votes (e.g., Middle East, economic topics, etc.).

[6]Kilby (2024) also highlights the relevance of using votes identified as such by the U.S. State Department, which pertain to issues that directly affect significant U.S. interests and are the subject of extensive lobbying efforts by the United States. Interestingly, Kilby finds no definitive evidence that these votes consistently align with those on which the U.S. lobbied heavily. He also suggests that, in some cases, the "important" designation may be intended more for domestic U.S. audiences than for reflecting actual lobbying priorities.

suspended from the UN Human Rights Council before. Prior to the vote, Russia campaigned against the resolution.[7] This led to the highest number of "No" votes (24) in any of the six ES-11 Resolutions. In our view, this vote thus represents the single most informative UNGA vote on geopolitical allegiances following the invasion.

Appendix B lists the UNGA votes from which we derive three geopolitical blocs (East, West and non-aligned). UNGA voting provides three options: "Yes" (approve), "No" (disapprove), and "Abstain" (present without voting); alternatively, UN members may not attend the voting session in the first place ("Absent"). For the vote on suspending Russia's Human Rights Council membership, we classify "No" votes as siding with Russia (East), "Yes" as aligning with the West, and abstentions as "Non-aligned", as abstaining is the only way to express a neutral stance in a UNGA vote. This mapping leads to a smaller East (24 countries) and larger West (93) than the statistical partition of IPDs by quartiles (48 each) in Gopinath et al. (2025).

This still leaves two groups of countries to be allocated to geopolitical blocs. First, many economies in our data are not UN voting members (e.g. Hong Kong SAR, offshore financial centers, dependent territories, etc.). Since they are unable to express any position in the UNGA, we treat them as non-aligned. Second, the decision of a UN member to remain absent from a contentious vote is open to several interpretations.

- In version A, we include absent UN members with the non-aligned, interpreting absence as a "neutral" stance.[8] The East remains at 24 countries.
- In version B, we include the 18 absent UN members with the East, interpreting absence as "protest". Given the divisive nature of the Human Rights Council vote, absence may be a strategic choice off the voting record. With this interpretation, the East comprises 42 countries.

In our empirical analysis of the main adverse event (the 2022 invasion of Ukraine), we use the equal-sized blocs as the baseline and apply our Versions A and B as robustness checks. For the 2014 Crimea invasion event, we continue applying the equal-sized blocs as in the baseline, but update the bloc composition to 2014 IPD data and maintain Russia in the East bloc.[9] For the

[7]Official letters sent to a large number of states warned that countries would be considered "unfriendly states" should they fail to vote against the Resolution (Boeglin, 2022).

[8]Bailey et al. (2017) argue that absences typically do not reflect a country's geopolitical stance but are more often the result of a temporary lack of government or a crisis that hinders attendance.

[9]Based on the 2013 IPDs vis-à-vis the United States, Russia would not be categorized within the East bloc, even after its annexation of Crimea in 2014. The official geopolitical stance of Russia prior to the annexation indicates that the event came as a geopolitical surprise.

fall of the Berlin Wall and the invasion of Afghanistan events, we follow Gopinath et al. (2025) and adopt the West–East divide defined in Gokmen (2017) and Huntington (1997), respectively.

The growing body of literature using data of Bailey et al. (2017) on UN voting patterns as a proxy for geopolitical alignment has subjected the IPD indicator to increased scrutiny (Fjelstul et al., 2022). To address potential concerns that our results unduly rely on this indicator, we incorporate two alternative proxies for geopolitical alignment. The first is *historical military alliance memberships*, where military alliances are represented by the weighted pi-score, calculated using data from the Alliance Treaty Obligations and Provisions (ATOP) project (Chiba et al., 2015; Leeds et al., 2002). Countries that are more geopolitically distant tend to have lower pi-scores. A second alternative uses data on *bilateral arms trade* (the sum of arms exports and imports) from the Stockholm International Peace Research Institute (SIPRI) Arms Transfer database. These two series were included separately in regressions as substitutes for the UN voting patterns series in the baseline gravity specification.

1.3 International banking data

Most international statistics are compiled on a *residence* basis, tracking flows from source to destination countries – this shapes the perspective taken by the literature on geopolitical fragmentation. This is also the case for FDI, portfolio investment and trade data, as well as the BIS locational banking statistics (LBS): they capture credit by banks located in the United Kingdom to borrowers in Russia, for example. The focus is on cross-border stocks and flows of credit intermediated by banks, complementing the analysis on portfolio investment and foreign direct investment presented in Gopinath et al. (2025). The residence perspective has much to offer: it sheds light on capital flows and, presumably, the laws and regulations creditors and borrowers in the source and destination countries are subject to.

However, to analyze geopolitical fault lines in international finance, it may not be sufficient to track the geography of capital flows. An alternative *nationality* view, available in the BIS consolidated banking statistics (CBS), groups balance sheets by the country of headquarters. This shifts the perspective from *where* activity takes place to *who* drives this activity and bears the risks (Hardy et al, 2024). The consolidated perspective thus recognizes that the subsidiaries and branches of Italian banks lending to Russia out of London is, in fact, an Italian exposure to Russia. The same nationality criterion can be applied on the borrower side, which typically requires granular data (Coppola et al, 2021). To obtain the nationality of the borrower for international loans, we rely on syndicated loans data from Dealogic.

Most of the empirics in this paper use a dataset built from the LBS, because it is the most comprehensive source of information on international banking and is available from 1977 at quarterly frequency. The data are reported by more than 6,000 banks (including subsidiaries and branches) in 48 reporting countries, comprising advanced economies, emerging markets and the major offshore centers.[10] The LBS include banks' cross-border claims and liabilities vis-à-vis more than 200 counterparty countries and jurisdictions. The bulk of claims represents credit; for simplicity, we use claims and credit interchangeably.[11] The LBS are collected in the "banks-to-country" format; we construct a "country-to-country" network by using reported assets and liabilities as mirror data (see Appendix C). The procedure returns a network that contains all reported positions intermediated via banks between origin and destination countries, and maximises coverage in the process, resulting in a dataset with between 3,000 and 12,000 bilateral bank positions every quarter, or more than 1 million observations spanning 47 years.

Table 4 complements our residence-based results by providing the *nationality* perspective available in CBS statistics and in syndicated loans. The CBS provide a worldwide consolidated view of banks' exposures for 31 major bank nationalities. They are available from 1983 vis-à-vis emerging markets on a semi-annual frequency, with broader (global) coverage from 1999 at quarterly frequency. From 2005, they also report off-balance sheet exposures, such as credit commitments and guarantees extended by a bank. These statistics identify the nationality of a bank and its worldwide exposures (booked anywhere) on borrowers in every counterparty country. We also use syndicated loans data to obtain the borrower's nationality, defined by its ultimate parent, which allows for a full nationality view on the lender andborrower side.

The nationality dimension can be important to analyze geopolitical fragmentation. Policy measures taken in country s against country c may apply to all *nationals* of country c, wherever they happen to be located; and similarly, the policy measure enacted in s may not only apply to banks operating in s, but could also extend to the subsidiaries and branches of country s banks headquartered in s operating elsewhere.

[10]The statistics include banks' intragroup positions with subsidiaries and other affiliates of the same banking group, including positions with their branches abroad (BIS, 2019). For example, the United Kingdom reports for domestic and foreign banks operating in the UK their respective positions with every counterparty country.

[11]In the LBS, claims comprise (i) loans and deposits, (ii) holdings of debt securities and (iii) derivatives with a positive market value and other residual instruments (combined). Credit is the sum of (i) and (ii).

1.4 Aggregated stylized facts

The total value of reconciled cross-border bank credit has increased from around USD 1.0 trillion in 1977, to around around USD 58 trillion by mid-2024. The left panel of Figure 2 shows the total value of cross-border credit over time in USD trillions, divided into categories based on whether the source and destination countries are within the same geopolitical bloc (green), in different blocs (blue), or whether the source *or* destination country is in the non-aligned group (red).[12] For illustrative purposes, the geopolitical blocs in the figure are defined based on countries' ideal point distance in 2021 and kept constant over time, although geopolitical alignment has varied considerably over these decades (in our regressions below, the composition of blocs varies over time).

Even if cross-border bank credit has grown dramatically over our sample period, the bulk remained concentrated in positions within blocs and with non-aligned countries. This highlights the concentration of finance in major economies and financial centers predominantly associated with the West. In 2024 Q2, credit between blocs accounted for only 5% of total credit. The historical episodes which we analyze empirically are shown as dashed vertical lines.

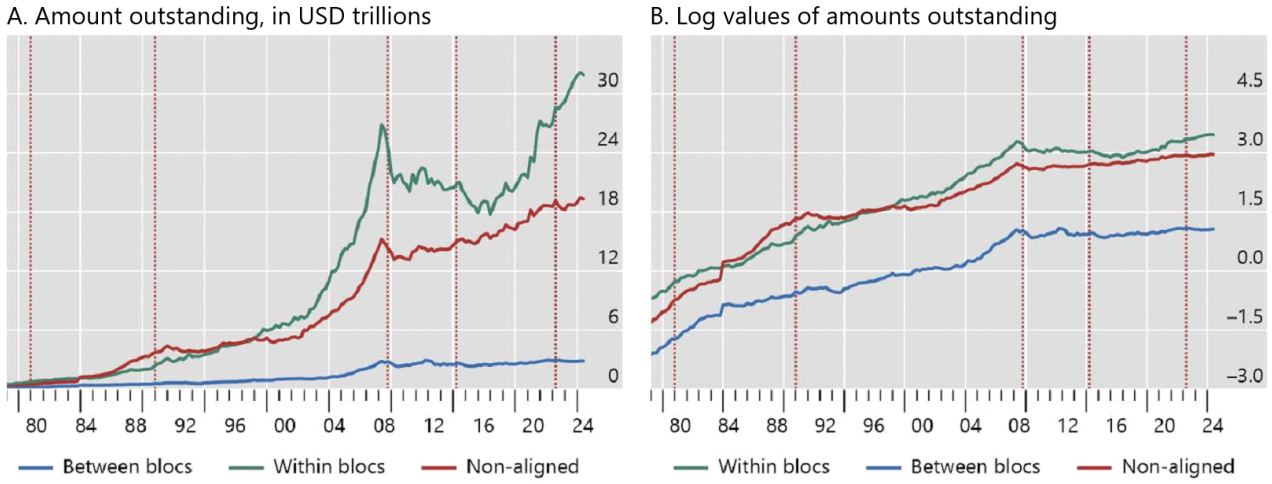
The right panel of Figure 2 displays the same times series expressed in natural logarithms, as in our regressions. The historical episodes considered in our empirical analysis are shown as dashed vertical lines. The window around the invasion of Ukraine in 2022Q1 is marked by a rise in cross-border credit between East and West before the event, followed by a small decline since (blue line). By contrast, credit within blocs has continued to expand (green line).

To draw a comparison between developments in cross-border banking with those in international trade, Figure 3 provides analogous information derived from data on trade in goods. The figures show that trade is less concentrated within blocs than cross-border credit. However, there has also been a noticeable decline in trade between countries in different geopolitical blocs relative to trade within blocs since the 2022 invasion.

These aggregate patterns are also discernable in bilateral positions between country pairs. Figure 4 contrasts pre- and post-2022 invasion levels averaged across country pairs. The top panels compare cross-border bank credit averaged over the period prior to the invasion (2017 Q1 to 2021 Q4) with the post-invasion period (2022 Q1 to 2024 Q2). The lower panels show analogous information for international trade. The average bilateral stocks of credit among countries within the same blocs increased from around $13 billion to $18 billion US dollars,

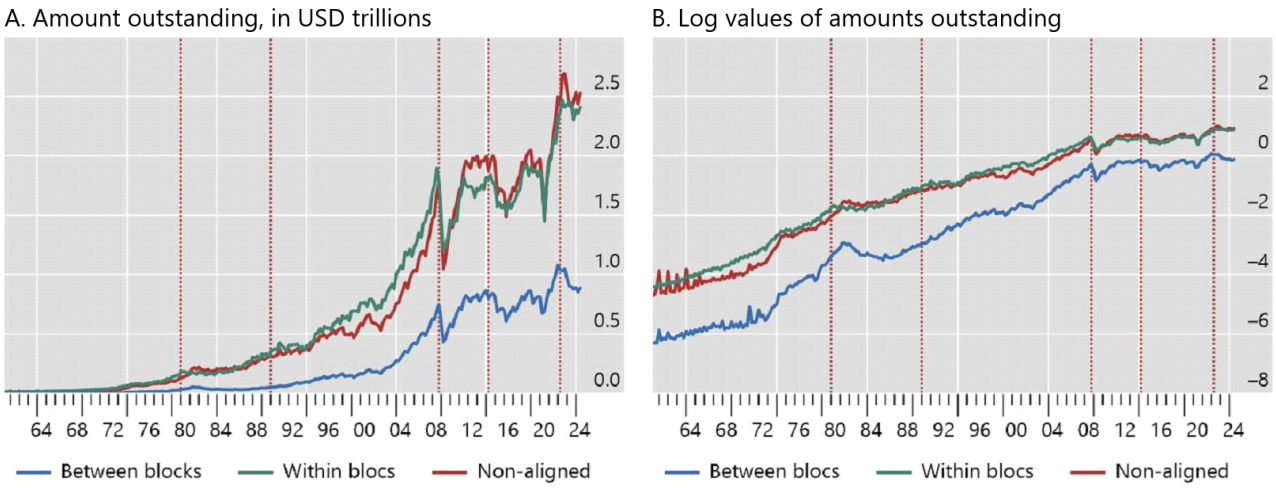
[12]Following Gopinath et al. (2025), East and West are treated as blocs, while the non-aligned group is not; hence, "between blocs" only refers to credit from East to West and West to East (see also Section 1.2).

Figure 2: Aggregate cross-border credit, by geopolitical bloc



Source: BIS Locational Banking Statistics and authors' calculations.
Note: The left panel shows the total value of cross-border credit over time, divided into categories based on whether the source and destination countries are within the same geopolitical bloc, in different blocs or whether the source or destination country is in the non-aligned group. The right panel shows the same times series expressed in natural logarithms.

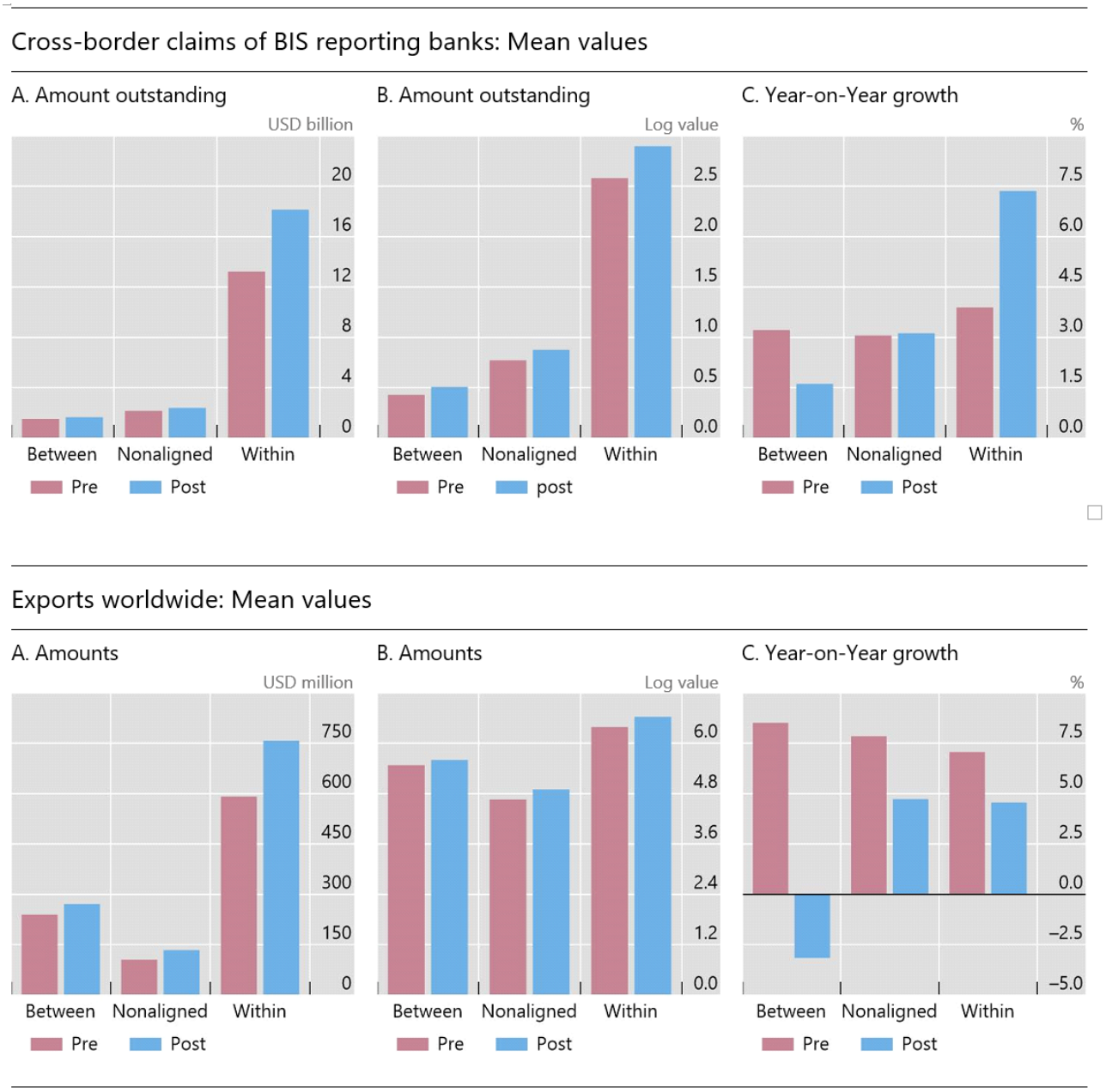
Figure 3: Aggregate trade in goods, by geopolitical bloc



Source: IMF Direction of Trade Statistics and authors' calculations.
Note: The left panel shows the total value of trade in goods over time, divided into categories based on whether the source and destination countries are within the same geopolitical bloc, in different blocs or whether the source or destination country is in the non-aligned group. The right panel shows the same times series expressed in natural logarithms.

representing an increase of almost 40%. By contrast, bilateral positions between blocs grew more modestly, rising from $1.5 billion to $1.7 billion, and increase of just 8%.

Figure 4: Cross-border bank credit and trade across geopolitical blocs before vs. after Russia's invasion of Ukraine, Pre-period: Q1 2017 to Q4 2021; Post-period: Q1 2022 to 2024Q2



Source: IMF, BIS and authors' calculations.
Note: The bars represent mean values across all pairs of lenders and borrowers during pre- and post-periods, respectively. Year-on-year growth are derived from aggregate of all pairs of lenders and borrowers in respective groups.

The patterns carry over to the scaled versions of these variables as used in the empirics. Data in the center panels are expressed in natural logarithms, facilitating comparison with the regressions. The right panels display growth rates, showing a clear divergence (Figure 4, right panel). Following the invasion, average growth in credit and trade between countries in different geopolitical blocs lies well below the rates seen among countries within the same bloc. Before the invasion, credit growth was 3.2%, comparable to the 3.9% growth observed within blocs on average. Following the invasion, average bilateral credit growth dropped to 1.6% between blocs, whereas it accelerated to 7.3% within blocs.

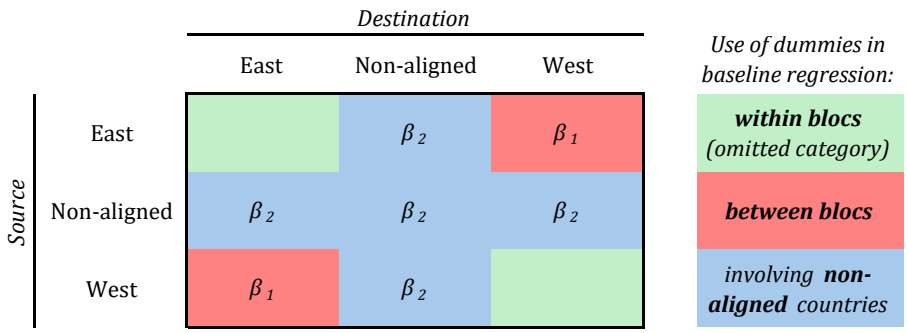
2 Empirical analysis

Our starting point is the regression specification proposed by Gopinath et al. (2025)

$$y_{sdt} = \beta_1 BetweenBloc_{sd} \times Post_t + \beta_2 Nonaligned_{sd} \times Post_t + \delta_{sd} + \tau_{st} + \phi_{dt} + \varepsilon_{sdt} \quad (2)$$

where the dependent variable is the natural logarithm of cross-border credit from source country s to destination country d at time t, at quarterly frequency. Figure 5 illustrates how geopolitical blocs enter this specification: This base category is country pairs for which *both* the source and the destination belong to the same geopolitical bloc (green cells). $BetweenBloc_{sd}$ is a country pair indicator equal to 1 if two countries belong to different blocs (red), while $Nonaligned_{sd}$ is a dummy variable equal to 1 if one or both countries are non-aligned (blue). Following Gopinath et al. (2025), the bloc variables are interacted with dummy variable $Post_t$ that switches from 0 to 1 in 2022 Q1, the quarter when Russia's full-scale invasion of Ukraine began. We use an analogous $Post_t$ dummy in subsequent regressions involving other geopolitical events. The

Figure 5: **Illustrating the use of blocs in the empirical specification**



specification is saturated with fixed effects at the country-pair (δ_{sd}), source × quarter (τ_{st}) and destination × quarter (ϕ_{dt}) level. Together, these account for all time-varying source- and destination-specific factors, such as differences in financial openness. The δ_{sd} fixed effects account for all time-invariant bilateral factors, such as physical distance, shared language, common borders, and other determinants commonly used in the gravity literature.

The coefficients of interest capture the variation in bilateral cross-border credit across different blocs over time. Specifically, β_1 captures the difference in average bilateral cross-border credit between country-pairs belonging to different geopolitical blocs after a significant geopolitical event (such as the invasion of Ukraine), compared to country-pairs within the same geopolitical bloc (the omitted category; see Figure 5). Similarly, β_2 captures the difference in average cross-border credit between non-aligned countries after the geopolitical event, compared to country-pairs within the same geopolitical bloc. We obtain estimates from linear panel regressions (OLS) and from the Poisson pseudo-maximum likelihood (PPML) estimator (Silva and Tenreyro, 2006).[13] We obtain robust standard errors, clustered at the country-pair level. In robustness checks, we also use other dependent variables, alternative definitions of geopolitical blocs, and exclude Russia from the sample.

2.1 Russia's invasion of Ukraine in February 2022

The estimates in all specifications point to a decline in cross-border credit between blocs (relative to credit within blocs) after the invasion of Ukraine. Table 1 first reports coefficients estimates obtained by OLS, with cross-border credit in log-levels (column (1)) and in year-on-year percentage changes (column (2)) as dependent variables, respectively. In column (3), our preferred specification, the dependent variable is expressed in levels and coefficient estimates obtained with PPML. The estimated coefficient β_1 equals -0.1, which implies a decline in credit between blocs of around 10% relative to credit within blocs in the aftermath of the invasion.[14] Excluding Russia confirms that the relative drop in credit between East and West was not limited to credit to Russia (column (4)).

The geopolitical effects are in line with the estimates in Gopinath et al. (2025) for FDI and trade (-12% and -11%, respectively, using the same methodology). By contrast, the coefficient

[13]The PPML estimator has several advantages, particularly in contexts where there are a sizable number of inactive links (country pairs with bilateral positions equal to zero), and is robust to heteroskedasticity, providing consistent estimates even if the variance of the error term is not constant (Silva and Tenreyro, 2006).

[14]Given the functional form of the PPML estimator, the decline in credit between blocs relative to that within blocs following the event can be computed as $(e^{-0.10} - 1) * 100 = -9.52\%$.

β_2 on the $Nonaligned \times Post$ dummy is significant (and negative) only in column (1). For the most part, cross-border credit involving non-aligned countries did not evolve differently from credit *within* geopolitical blocs after the invasion, at least on average. The estimate of β_2 would be expected to be positive if banks operating in small financial centres, for instance, had systematically acted as intermediaries between East and West. However, since it is not, this suggests that they did not play such an intermediary role.

The results are somewhat stronger when using our definition of geopolitical blocs based on the April 2022 vote in the UN General Assembly (as described in Section 1.2). When absence is interpreted as a neutral stance, the relative drop in credit between blocs is estimated to be larger, at almost 16% (column (5)). Interpreting absence as a sign of protest yields a similar relative drop (column (6)), even as this version includes 18 more countries in the East bloc.

2.2 Geopolitics through time

We now extend the sample back to the inception of the BIS locational statistics (1977 Q4). In this specification, we drop geopolitical blocs altogether and make direct use of IPDs as a bilateral panel variable. The geopolitical distance between countries may influence the amount of credit extended between them, similarly to the effect of geographic in gravity equations. We must exclude the country-pair fixed effects (δ_{sd}) from equation (2) in order to capture any level effects. This is because some country pairs may be geopolitically distant in a persistent way, such that their IPDs remain constant over time. To avoid confounding geopolitics with geography, we add traditional gravity controls (distance, common border and language) and estimate

$$y_{sdt} = \beta_1 IPD_{sdt} + \beta_2 IPD_{sdt} \times Post_t + \beta_3 BilateralControls_{sd} + \tau_{st} + \phi_{dt} + \varepsilon_{sdt}, \qquad (3)$$

where IPD_{sdt} denotes geopolitical distance in period t. Some of the specifications also include an interaction term $IPD_{sdt} \times Post_t$ to test whether the effect of geopolitical distance became stronger after the invasion of Ukraine in 2022.

The results in Table 2 suggest that geopolitical distance between countries tends to weigh on banking activity between them. A unit difference in ideal point distance between two countries is associated with 14% less credit between them, compared to similar countries with no geopolitical differences (from the coefficient -0.13 in column (1)). The coefficient on the interaction term in column (2) indicate that this effect became stronger, reaching almost 20%,

following the invasion of Ukraine. Columns (3) and (4) present analogous regressions, using international trade as the dependent variable. The results indicate that geopolitical distance had little effect on international trade on average over the entire period since 1977 (column (3)). However, it did start to have a dampening effect on trade in periods of war (column (4)).

We also report full-sample results using two alternative indicators of geopolitical proximity, to allay concerns over our reliance on IPDs: historical military alliance memberships, and bilateral arms trade, described in Section 1.2. The results in Table 3 indicate that cross-border bank lending is *greater* between countries with closer geopolitical ties, as measured by military alliances; the effect becomes more pronounced in times of war (as evidenced by the *Post* interaction). Similarly, extensive bilateral arms trade between two countries is associated with greater cross-border bank lending. The positive results on geopolitical proximity are consistent with negative results on geopolitical distance and divisions between blocs.

2.3 The nationality perspective

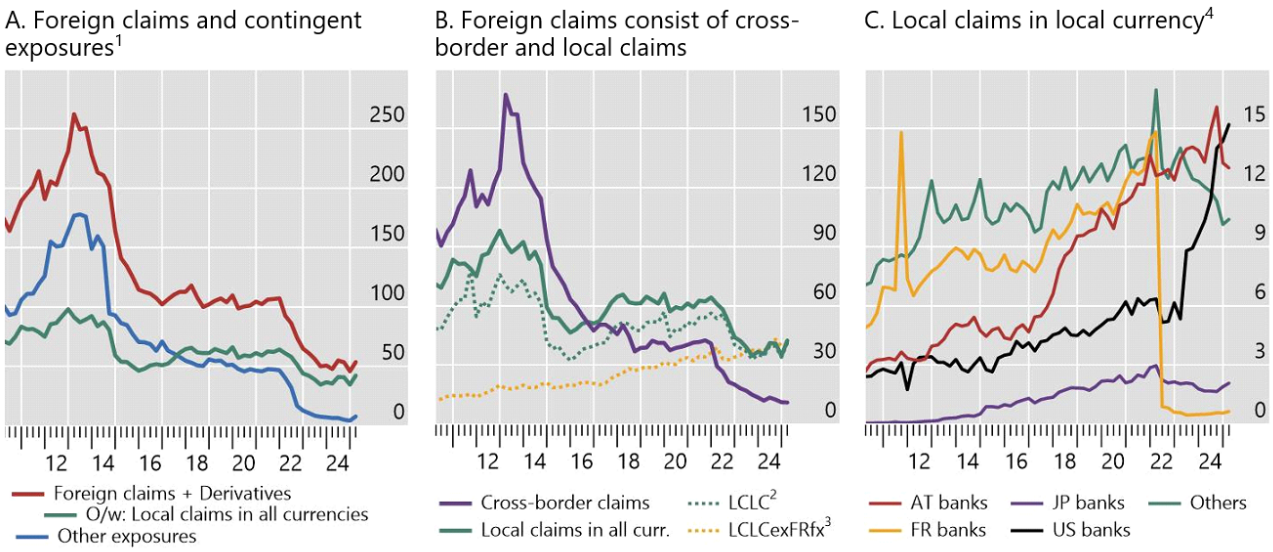
The BIS locational banking statistics used so far capture the geography of capital flows between countries, in line with other residence-based statistics used in related research (FDI, portfolio investment and trade data). It is possible, however, that the fault lines run along the nationality dimension, if banks headquartered in a given country act similarly (wherever they operate), or borrowers of a particular nationality are shunned as counterparties (wherever they borrow). To shift perspective, we turn to the BIS CBS and syndicated loans data (described in Section 1.3), and run the specification of Table 2 on a nationality basis in Table 4.

Consolidated statistics group banks by nationality (the country of headquarters), across all countries they operate in. They also recognize the fact that banking groups are exposed to a country through *local positions* that their affiliates book *in* the country of the borrower. Furthermore, banks hold *contingent exposures* that are not reported on their balance sheets. *Credit commitments* are undrawn lines of credit; they are irrevocable contractual obligations which, if drawn, result in the extension of a loan. *Guarantees* are contractual obligations of a bank toward a third party; they represent an exposure if the bank's client fails to fulfill its contractual obligation. The CBS keep track of both types of exposures to every counterparty country, for each bank nationality.

A case in point is the exposure of foreign banks to Russia (see Figure 6). Major banking systems reporting the CBS have significantly scaled down their exposures to Russian borrowers (panel A). This process began following the annexation of Crimea in 2014 and intensified after

the invasion of Ukraine in 2022, accompanied by associated sanctions. Banks have reduced both their on-balance sheet claims (red line) and contingent exposures (blue line), such as credit commitments and guarantees, which have now fallen to just a few percent of their 2013 levels.[15] By contrast, banks have retained a larger proportion of their local operations in Russia (green line).

Figure 6: Foreign banks' consolidated exposures to Russia
in billions of US dollars



Source: BIS consolidated banking statistics.
Note: 1) Foreign claims = cross-border claims plus local claims (in all currencies) on counterparties outside the bank's country of headquarters; Other exposures = guarantees extended plus credit commitments. 2) Local claims booked in the local currency of the borrower (rouble). 3) Local claims in local currency, expressed at constant exchange rates as of 2025 Q1; series excludes French banks. 4) Expressed at constant exchange rates as of 2025 Q1.

Panel B differentiates between the two components of foreign claims: the resilience of local claims (green) sharply contrasts with the steep decline in cross-border credit to Russia (purple). Foreign banks have largely retained the local claims of their affiliates operating in Russia. Most local claims are booked in the borrower's currency – the rouble (green dotted line). The modest decline in this series is primarily attributed to the depreciation of the rouble, which represents an (unrealised) valuation loss for banks but does not reduce the rouble-denominated credit available to local borrowers. Adjusting for exchange rate effects reveals that local rouble claims

[15]These aggregates exclude exposures from non-reporting banks under the BIS CBS framework, notably Chinese banks, which are known to maintain substantial exposures to Russia.

have actually trended upward (yellow line). There is a remarkable divergence in local rouble claims across foreign banks (Panel C). At one extreme is the resilience, even expansion, of local credit by US and Austrian banks. The exit of foreign banks from Russia has been complicated by regulatory hurdles, including the requirement for presidential approval. At the other extreme, French banks have promptly divested Russian operations, notably with the sale of Rosbank by Société Générale, and other nationalities have reduced exposures too. Hence, the finding highlighted by Niepmann and Shen (2025) for US banks does not generalise to all foreign banks, highlighting the value of examining panel data comprising different bank nationalities.

The nationality-based regressions in Table 4 assess the extent to which these observations generalize across different periods and country pairs. The results in column (1) are comparable to those in Table 2: greater geopolitical distance between a banking system and the borrower country tends to reduce international claims (mostly cross-border credit) between them. However, this effect is not significant for the local claims that foreign banks book within the country (column (2)) – we find no measurable impact of geopolitical differences (IPDs) on local credit. This finding remains unchanged even after local claims are adjusted to exclude valuation effects (column (3)). In contrast, geopolitical distance does appear to constrain contingent exposures, such as credit commitments extended by foreign banks (column (4)).[16]

As Figure 6 suggests, banks with a local presence tend to be slower to withdraw from geopolitical hotspots. This aligns with recent findings by Niepmann and Shen (2025) for US banks. Using bank-specific measures of geopolitical risk, they show that US banks reduce cross-border lending to countries experiencing heightened geopolitical risk, while maintaining their lending through local affiliates in those same countries. They argue that cross-border lending is more vulnerable to expropriation risk compared to local lending, which is often funded locally – assuming that local deposit liabilities are extinguished in the event of an expropriation of assets. Their analysis focuses exclusively on US banks and employs risk indices derived from textual analysis of newspapers and earnings calls. In contrast, our study uses geopolitical distance measured by IPDs to examine banks headquartered in more than 30 countries.

Finally, we examine whether taking the *nationality of the borrower* into account affects results. For each bank nationality involved in loan syndicates, we compare syndicated loans to borrowers located in a particular country c (column (5)) with loans to borrowers of that nationality, inferred from the ultimate parent of the corporate borrower (column (6)). The former can be understood as representing "borrowers in Russia", whereas the latter reflects "Russian borrowers anywhere". In both cases, loans outstanding are smaller when lenders and borrowers are

[16]This result does not apply to guarantees extended by foreign banks.

more geopolitically distant. The similarity in the results suggests that our specifications adequately capture geopolitical factors even when the nationality of the borrower is not explicitly identified. The size of the estimated effect of geopolitical distance is substantially larger when using syndicated loans as the dependent variable.

2.4 Differentiating geopolitical events

Earlier adverse geopolitical events. We now compare the 2022 invasion of Ukraine with other adverse geopolitical events to test the broader validity of these findings. Table 5 reports estimates from comparable regressions for the annexation of Crimea in 2014 (columns (1)-(3)), and the Soviet invasion of Afghanistan in 1979 (columns 4-6). The β_1 coefficient estimates on $Between \times Post$ suggest that both events were followed by a decline in cross-border credit between geopolitical blocs compared credit to within blocs. Even though the annexation of Crimea appears to have been a less significant event according to the geopolitical risk index of Caldara and Iacoviello (2022), the estimated decline was more pronounced compared to the 2022 invasion of Ukraine (30% vs. 10%). While the annexation undeniably reduced credit to Russia, its impact on cross-border credit was more widespread. The empirical estimates remain robust even when Russia is excluded from the sample (column (3)), demonstrating again that the geopolitical event involving Russia as a key counterparty involved in the event has wider international ramifications not restricted to Russia.

The results also suggest that, in contrast with Ukraine's invasion of 2022, cross-border credit involving non-aligned countries also declined compared to credit within geopolitical blocs after the annexation of Crimea. However, the coefficient estimates on the $Nonaligned \times Post$ interacted dummy are somewhat smaller than those obtained on the $Between \times Post$ interaction, suggesting that the effect was less pronounced.

Data availability is more limited for the Soviet invasion of Afghanistan in 1979, resulting in substantially smaller sample. This notwithstanding, the estimated sign and significance of the coefficients of interest reported in columns (5) and (6) of Table 5 are larger than those obtained for the more recent episodes, thereby suggesting that this event had even more pronounced effects on cross-border bank credit, with declines of almost 50% (compared to 10-30% for the 2014 and 2022 events).

Placebo test. Finally, to address potential concerns about the validity and robustness of the results, we also perform a placebo test using the 2008 Global Financial Crisis as the treatment event. This crisis is widely recognized for its dramatic impact on cross-border credit; however,

it resulted from financial vulnerabilities, rather than from geopolitical events (Cetorelli and Goldberg, 2011; McCauley et al., 2019; Emter et al., 2019). As such, geopolitical variables should have no explanatory power in this episode. In this regard, the results presented in columns (2) and (3) of Table 6 are reassuring. The coefficients on the variables of interest, $Between \times Post$ and $Non\text{-}aligned \times Post$, are not statistically significantly different from zero. Although cross-border credit declined sharply worldwide following the global financial crisis, the contraction did not occur along geopolitical fault lines.

3 Global banking, trade and trust

3.1 A positive event: the fall of the Berlin wall

Next, we analyze in Table 6 the effects of the fall of the Berlin Wall in 1989, which heralded the end of the Cold War. This analysis tests whether the impact of a positive geopolitical event is symmetric to that of adverse events. The coefficient estimate for the variable of interest, the $Between \times Post$ interaction, is not significantly different from zero, neither in the OLS (column (1)) nor in the PPML (column (2)) specification. This finding suggests that, following the end of the Cold War, credit across geopolitical blocs did not substantially differ compared to that within blocs.[17] This result stands in stark contrast to the findings obtained earlier for negative geopolitical events, which indicate significant adverse effects on cross-border bank credit.

Table 7 examines whether international trade exhibits a similar asymmetry. Columns (1) to (5) report the estimates for the invasion of Ukraine using several specifications.[18] In line with our results on banking (Table 1), the estimated coefficient on $Between \times Post$ is significantly negative and, depending on the estimator, on the order of 10-20%. This supports the findings of Gopinath et al. (2025) that trade flows declined substantially between countries in geopolitically distant blocs following the 2022 invasion of Ukraine, relative to flows between countries within the same bloc.[19]

However, the estimated effects of geopolitical events on trade appear to be more symmetric than

[17] Similarly, the coefficients on the $Non\text{-}Aligned \times Post$ interaction are not statistically significant.

[18] Column (1) shows the estimates obtained with an OLS estimator, column (2) with PPML, column (3) and (4) with alternative geopolitical bloc definitions derived from a specific UN vote on the war in Ukraine, and column (5) excluding Russia.

[19] Similarly, the estimated effect on cross-border bank credit involving non-aligned countries is more limited, as the coefficients are substantially smaller and statistically significant only in three out of the five specifications.

those obtained with credit. Columns (6) to (8) of Table 7 report the estimates obtained for fall of the Berlin wall of 1989.[20] In contrast with the results for banking, this positive geopolitical event appears to have led to a substantial increase in trade flows between opposite geopolitical blocs, relative to trade within blocs or trade involving non-aligned countries. Interestingly, the magnitude of the effect (around 60-70%) is similar in size to the negative effect estimated by Gopinath et al. (2025) following the onset of the Cold War in the 1950s. Overall, this suggests that positive and negative geopolitical events have broadly symmetric effects on international trade – in contrast to banking.

3.2 Trust as a hypothesized mechanism behind asymmetries

Why are there asymmetries in the effects of geopolitical events? What explains our findings that negative events reduce banking positions between geopolitical blocs, whereas positive events have no significant effect on finance, in spite of boosting trade? We conjecture that the economic mechanism driving our findings lies in the fact that financial transactions fundamentally rely on trust. Credit, especially when long-term and unsecured, is inherently more trust-intensive than transactions in goods (Kiyotaki and Moore, 2001, 2002).Financial decisions involve intertemporal considerations, trade-offs between the present and the future, and require commitment. Financial liabilities are mere promises – often made over several years, unsecured. By contrast, trading physical goods involves the short-term exchange of value against real collateral (goods in transit), typically over shorter time horizons. When trust is eroded by geopolitical tensions, or when it needs to be (re)established between distant geopolitical blocs, building the trust necessary for financial transactions proves significantly more challenging than for goods trade. As a result, when geopolitical tensions subside, financial flows between geopolitical blocs recover more slowly as trade flows. The response of finance to geopolitical events tends to be asymmetric, with financial flows failing to expand in response to positive geopolitical events that simultaneously stimulate trade.

In empirical studies, trust has been found to have significant effects on a variety of financial decisions.[21] Importantly for this analysis, Ekinci et al. (2007) demonstrated that EU regions with high levels of confidence and trust – measured using survey data similar to that employed below – exhibit greater financial integration with each other. Recent papers have provided

[20]Column (6) shows the specification using an OLS estimator, column (7) uses PPML, while column (8) excludes the Soviet Union/Russia.

[21]This is the case, for instance, of the incidence and acceptance of insurance claims; individuals' levels of cash versus stock holdings; analyst stock recommendations; venture capital investment; and firm's international investment decisions (Gennaioli et al., 2022; Guiso et al., 2008, 2004; Bottazzi et al., 2016; Pursiainen, 2022).

additional evidence that trust plays an important role in bank lending decisions (Hagendorff et al., 2023; Eichengreen and Saka, 2025). Moreover, Guiso et al. (2009) use bilateral data on trust between European countries to show that lower trust leads to less trade, portfolio investment and foreign direct investment (FDI). The estimated effect is stronger for transactions that are particularly trust- intensive, such as FDI: trust impacts FDI twice as much as trade, as its long-term nature makes it more reliant on trust due to contract incompleteness.

This distinction suggests that rebuilding the trust needed for financial transactions is more difficult than for trade in goods after it has been eroded by negative geopolitical differences. Consequently, when trust needs to be (re)established between distant geopolitical blocs, doing so is more challenging for finance than for goods trade. Hence, financial flows between geopolitical blocs recover more slowly than trade flows when geopolitical tensions subside. The response of finance to geopolitical events can thus be asymmetric, with financial flows failing to expand in response to positive geopolitical events that simultaneously boost trade.

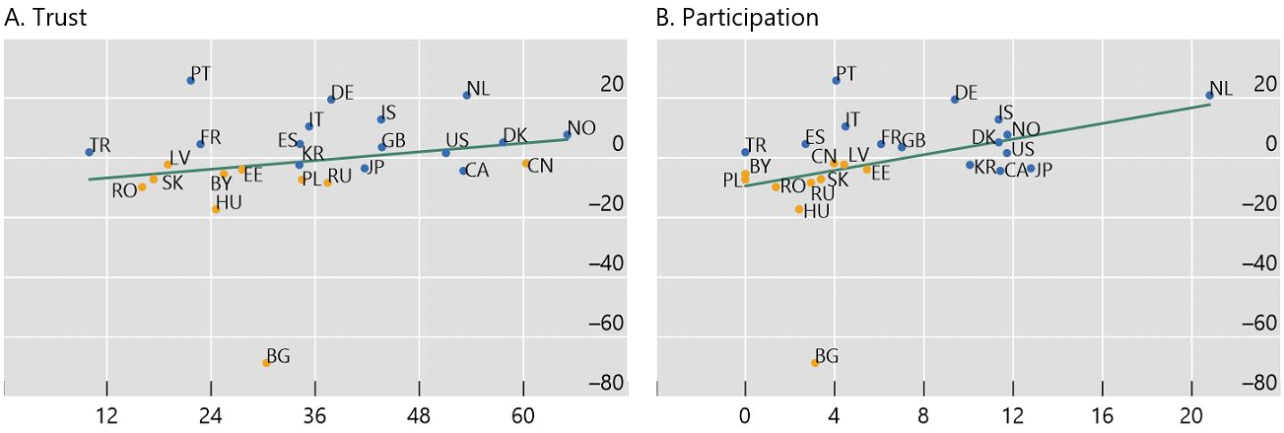
3.3 Suggestive evidence

This conjecture aligns with Figure 7, which illustrates differences in changes between cross-border bank flows relative to trade flows, scaled by GDP, from 1993 to 2000 plotted against two survey measures of trust across countries in 1990.[22] In the figure, blue dots represent Western bloc countries, while yellow dots correspond to former Soviet bloc countries. Trust in panel A is the percentage of respondents who answered "Yes" to the question: "Generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?". Participation in panel B measures the share of individuals engaged in various civic activities as captured in the survey.

As Figure 7 suggests, countries reporting higher levels of trust (x-axis) in surveys at the time experienced relatively faster growth in cross-border lending from Western bloc countries compared to the growth in their imports from those same countries. This positive correlation persists when focusing exclusively on Eastern bloc countries (yellow dots). Skeptics might argue that the results reflect the different speeds at which economies transitioned to a market economy. However, this is unlikely for two reasons. First, the findings are consistent with those observed

[22]Cross-border bank flows represent loans received from Western bloc counterparts, as reported in the BIS LBS statistics. Trade flows refer to total imports from Western bloc counterparts, sourced using IMF DOTS. GDP is measured as nominal GDP in USD at current prices. The survey-based trust measures are taken from Shleifer (1997), originally sourced from the 1990-1993 World Values Survey. The year 1993 is used as the starting point due to absence of observations for Eastern bloc countries prior to that period.

Figure 7: Trust vs. cross-border bank flows relative to trade in the 1990s



Source: BIS Locational Banking Statistics, IMF Direction of Trade Statistics, IMF World Economic Outlook, Shleifer (1997), and authors' calculations.
Note: The figure illustrates differences in changes between cross-border bank flows relative to trade flows, scaled by GDP, from 1993 to 2000 plotted against two survey measures of trust across countries in 1990. Trust (left panel) is the percentage of respondents who answered "Yes" to the question: "Generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?". Participation (right panel) measures the share of individuals engaged in various civic activities as captured in the survey.

in established Western market economies. Second, there is no inherent reason to assume that the transition process differed significantly between goods and financial markets.[23]

As further evidence on the trust channel, we also conduct analysis spliting syndicated loans into secured and unsecured. In general, unsecured loans can be considered more trust-intensive due to the absence of collateral: they reflect trust in the borrower's financial reliability, which requires information on credit history and other characteristics. The results in Table 8 show the effects on loans based on residence following the fall of the Berlin Wall. There was no statistically significant difference in less trust-intensive secured lending between geopolitical blocs compared to within these blocs, consistent with the results for aggregate locational banking statistics (column (1)). However, the negative coefficient on $Between \times Post$ in column (2) indicates that unsecured lending grew more slowly between geopolitical blocs than within blocs after the positive geopolitical event. This suggests that, in the absence of trust, lenders required

[23]In fact, as Shleifer (1997) puts it, transitioning to a market economy involves three key steps that concern the economy as whole: removing price controls to let market forces set prices, stabilizing the economy with stricter budget constraints on firms and the government, and privatizing state-owned enterprises to prevent political interference. It also requires establishing legal frameworks to protect private property, enforce contracts, and limit officials' abuse of power. Additionally, regulatory institutions must oversee areas like competition, banking, and trade, supporting the market economy rather than serving political or personal interests. All such reforms are relevant for both goods markets and financial markets.

collateral before extending loans to borrowers from erstwhile geopolitical adversaries.

3.4 Narrative evidence

Narrative evidence from contemporaries corroborate the conjecture that cross-border credit and trade may differ in fundamental aspects. For example, early publications by the European Bank for Reconstruction and Development (EBRD), established in 1991 to assist Central and Eastern European countries in transitioning from centrally planned to market-oriented economies after the Cold War and the collapse of the Soviet Union, observed that private finance took time to enter Eastern Europe in the years after the fall of the Berlin Wall. In contrast, trade reallocation occurred much more rapidly. Regarding financial flows, EBRD (1999) (p. 61) emphasizes that:

> *"Transition economies gained significant access to capital markets only after macroeconomic stabilisation had begun to take hold. Prior to 1994, significant capital flows occurred in only a few CEE countries, notably Hungary and the Czech Republic."*

This stands in stark contrast with the observations made on trade flows (p. 90):

> *"The liberalisation of external trade in the early 1990s led to fast and sizeable change in the geographic composition of trade. Most of this adjustment consisted of a reallocation of trade flows away from the CMEA [Council for Mutual Economic Assistance, also known as COMECON] towards the European Union. Trade with the rest of the world also increased, but by much less. Not only did geographical trade patterns change, but also the composition of trade changed to reflect more closely the specific resources and comparative advantages of the transition countries... the biggest change to the geographical composition of trade flows happened early in transition and has changed little since then."*

This reorientation of trade from CMEA toward the European Union has boosted trade between blocs at the expense of trade within the East, in line with the results in Table 7 (columns (6)-(8)). More evidence that the trust-intensive nature of finance is essential to explain asymmetries in the effects of geopolitical events can be found in EBRD (1998) (p. 79):

> *"Capital flows from 1989 to 1993 were shaped by Western governments' determination to make the transition "stick", coupled with a wait-and-see approach by private sources of funds. In the early years of transition, central economic coordination was lost, with markets only gradually taking its place... Reflecting these developments, capital flows into the region have followed a distinct sequence: official funding, FDI, nonguaranteed bank loans, dedicated equity funds, and lastly international bond issues and direct local stock and money-market invest-*

ments."

Similar observations were made by scholars in this earlier era.[24] Overall, this narrative evidence supports the view that the trust factor is crucial for explaining why the response of finance to geopolitical events can be asymmetric, failing to expand in the wake of positive geopolitical events that boost trade.

4 Conclusion

In this paper, we have examined asymmetries in the effects of geopolitical events on international bank credit using granular bilateral data spanning almost five decades. Our findings suggest that geopolitical differences between countries tend to reduce banking activity between them, but also reveal an intriguing asymmetry: negative events reduce cross-border credit between blocs relative to credit within blocs, while positive events show no significant effect on banking, even when boosting trade. These asymmetric effects lead us to hypothesize that international finance requires a lengthier history of geopolitical alignment and cooperation between the counterparts than trade in goods, given the more intertemporal nature of finance.

These findings have implications for policy. A possible decline in geopolitical tensions from current levels could result in a quicker resumption of trade compared to finance between the Western bloc and Russia. By the same token, the findings suggest that tensions within the Western alliance could have lasting consequences for cross-border banking across the Atlantic. This would have material implications for the global economy, given that the global financial system is so concentrated in Western economies.

[24]For instance, Calvo et al. (1995) note that: *"In contrast with the previous decade, capital has flown in abundance from industrial to developing countries in the 1990s, most prominently in Latin America and Asia, and with a lag in Central and Eastern Europe.... This was likely triggered by the collapse of the Communist regimes in these... years".* Moreover, Fidrmuc and Schardax (1999) (p. 29) similarly noted that *"...inflows of foreign direct investment had been small at the beginning of transition... Moreover, other forms of capital flows (portfolio investment) have started to develop dynamically in recent years. However, the capital inflows are heavily concentrated on a few countries in the region."*

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Tables

Table 1: **Cross-border bank credit** – Russia's invasion of Ukraine in 2022

	(1)	(2)	(3)	(4)	(5)	(6)
	Log level	YoY growth	Level	Level	Level	Level
Between × *Post*	-0.26***	-5.52*	-0.10**	-0.11***	-0.17**	-0.16**
	(0.04)	(2.82)	(0.04)	(0.04)	(0.07)	(0.07)
Non-aligned × *Post*	-0.21***	-4.64	-0.04	-0.03	0.01	0.01
	(0.05)	(3.12)	(0.05)	(0.05)	(0.04)	(0.04)
Observations	342,401	326,565	412,796	402,179	412,796	412,796
Event quarter	2022Q1	2022Q1	2022Q1	2022Q1	2022Q1	2022Q1
Sample period	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2
Estimator	OLS	OLS	PPML	PPML	PPML	PPML
Source × Time FE	All	All	All	ex. RU	All	All
Destination × Time FE	All	All	All	ex. RU	All	All
Geopolitical blocs	Quartiles				Neutral	Protest

Note: The table reports estimates of equation 2, using all available source s and destination d countries in enhanced locational banking statistics (LBS) by residence (see Appendix C). The estimation method is indicated in the row "Estimator". The dependent variable is the (log) level of bilateral cross-border credit between source and destination countries in Columns (1) and (3) to (6) while Column (2) uses year-on-year growth rates in bilateral credit. *Post* is an indicator variable that turns 1 from the quarter specified in row "Event quarter". "Between" equals 1 if the source and destination countries do not belong to the same geopolitical bloc. "Non-aligned" equals 1 if at least one country in the pair is nonaligned. Geopolitical blocs marked "Quartiles" are defined following Gopinath et al. (2025) in Columns (1) to (4), while "Neutral" and "Protest" in Columns (5) and (6) use the UNGA voting patterns on suspending Russia's membership in the UN Human Rights Council, see Section 1.2. All regressions include time-varying fixed effects (FE), and source × destination pair fixed effects. Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 2: **Gravity equation augmented by geopolitical distance** – All periods

	(1) LBS	(2) LBS	(3) Trade	(4) Trade
IPD	-0.13***	-0.10**	0.02	0.04
	(0.05)	(0.05)	(0.03)	(0.03)
IPD × Post		-0.08***		-0.05***
		(0.03)		(0.01)
Log distance	-0.55***	-0.55***	-0.74***	-0.74***
	(0.04)	(0.04)	(0.03)	(0.03)
Contiguity	0.09	0.09	0.49***	0.49***
	(0.13)	(0.13)	(0.09)	(0.09)
Common official language	0.55***	0.55***	0.14*	0.15*
	(0.09)	(0.08)	(0.07)	(0.07)
Constant	15.30***	15.29***	13.61***	13.61***
	(0.35)	(0.35)	(0.23)	(0.23)
Observations	2,011,442	2,011,442	5,133,944	5,133,944
Sample period	1978Q1-23Q4	1978Q1-23Q4	1978Q1-24Q2	1978Q1-24Q2
Estimator	PPML	PPML	PPML	PPML
Source × time FE	Yes	Yes	Yes	Yes
Destination × time FE	Yes	Yes	Yes	Yes
Source × Destination FE	No	No	No	No
Adj.R^2	0.941	0.941	0.936	0.936

Note: PPML estimates of equation 3, using all source s and destination d countries in the enhanced LBS (see Appendix). The dependent variable is the (log) level of bilateral cross-border credit of banks in country in columns (1) and (2) and bilateral trade in columns (3) and (4). *Post* is an indicator variable that turns to 1 in the periods of war and their aftermath examined in this paper: 1979q4 to 1985q4, 2014q1 to 2019q4, and 2022q1 to 2023q4. Instead of country-pair fixed effects, the specification uses gravity controls, but maintains time-varying fixed effects for each source and destination country.
Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 3: **Geopolitical proximity: Military alliances and Arms delivered** – All periods

	Military alliances		Arms delivered	
	(1)	(2)	(3)	(4)
Military alliances	0.69***	0.59***		
	(0.23)	(0.22)		
Military alliances × Post		0.38**		
		(0.16)		
Log Arms delivered			0.02***	0.01
			(0.01)	(0.01)
Log Arms delivered × Post				0.03**
				(0.01)
Log distance	-0.36***	-0.36***	-0.47***	-0.47***
	(0.13)	(0.13)	(0.04)	(0.04)
Contiguity	0.35**	0.35**	0.16	0.16
	(0.15)	(0.15)	(0.12)	(0.12)
Common official language	0.41***	0.41***	0.80***	0.80***
	(0.14)	(0.14)	(0.09)	(0.09)
Constant	13.10***	13.08***	15.58***	15.59***
	(1.05)	(1.04)	(0.31)	(0.31)
Observations	873,206	873,206	54,462	54,462
Sample period	1978Q1–23Q4	1978Q1–23Q4	1978Q1–23Q4	1978Q1–23Q4
Source × time FE	Yes	Yes	Yes	Yes
Destination × time FE	Yes	Yes	Yes	Yes
Source × Destination FE	No	No	No	No
Adj.R^2	0.948	0.948	0.976	0.976

Note: PPML estimates of equation 3, using all source s and destination d countries available in the enhanced LBS (Appendix C). The dependent variable is the (log) level of bilateral cross-border credit of banks. The measures of geopolitical proximity is the weighted pi-score, calculated using data from the Alliance Treaty Obligations and Provisions (ATOP) project (columns (1) and (2) and bilateral arms trade (columns (3) and (4)). *Post* is an indicator variable that turns to 1 in periods of war and their aftermath, as defined as in Table 2. Instead of country-pair fixed effects, the specification uses gravity controls, but maintains time-varying fixed effects for each source and destination country.
Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 4: **Consolidated bank exposures and syndicated loans** – All periods

	(1) INTC	(2) CBSI LCLC	(3) CBSI LCLCfx	(4) CBSG CC	(5) SynLoans to c	(6) SynLoans to n
IPD	0.01	0.26	0.28	-0.16	-0.32***	-0.31***
	(0.10)	(0.18)	(0.19)	(0.12)	(0.04)	(0.04)
IPD × *Post*	-0.11***	-0.10	-0.12	-0.13**	-0.09***	-0.08***
	(0.04)	(0.08)	(0.08)	(0.05)	(0.02)	(0.02)
Log distance	-0.37***	-0.72***	-0.72***	-0.44***	-0.35***	-0.31***
	(0.05)	(0.14)	(0.15)	(0.09)	(0.05)	(0.04)
Contiguity	0.03	0.42	0.40	0.29	0.31**	0.21
	(0.11)	(0.36)	(0.38)	(0.25)	(0.15)	(0.14)
Common official language	0.28***	0.85***	0.79***	0.35*	0.18	0.21*
	(0.09)	(0.28)	(0.30)	(0.20)	(0.13)	(0.11)
Constant	13.41***	15.82***	8.96***	13.67***	13.11***	12.83***
	(0.38)	(1.14)	(1.18)	(0.70)	(0.38)	(0.33)
Observations	561,963	465,433	392,237	316,123	2,224,203	2,278,541
Sample period	1983Q4-24Q2	1983Q4-24Q2	1983Q4-24Q2	2005Q1-24Q2	1980Q1-24Q2	1980Q1-24Q2
Estimator	PPML	PPML	PPML	PPML	PPML	PPML
Source × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Destination × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Source × Destination FE	No	No	No	No	No	No
Adj.R2	0.933	0.842	0.826	0.911	0.948	0.951

Note: The table reports estimates of equation 3 obtained with PPML, using all available source s and destination d countries for all periods, using BIS consolidated banking statistics (CBS) in columns 1- 4 and syndicated loans data (from Dealogic) in columns 5-6. The dependent variable is the (log) level of bilateral exposures from s to d, where each column refers to a different type of exposure. INTC = international claims = cross-border claims in all currencies plus their local claims denominated in foreign currencies; LCLC = local claims in the local currency of the borrower; LCLCfx = local claims in local currency, expressed at constant exchange rates; CC = Credit commitments = undrawn lines of credit; SynLoans to c = syndicated loans from banks of nationality s to borrowers located in country c; SynLoans to n = syndicated loans from banks of nationality s to borrowers of nationality n. FE refers to fixed effects. *Post* is an indicator variable that turns to 1 in periods of war and their aftermath, as defined as in Table 2.
Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 5: **Cross-border bank credit** – Annexation of Crimea and Invasion of Afghanistan

	Annexation of Crimea			Invasion of Afghanistan		
	(1)	(2)	(3)	(4)	(5)	(6)
	Log level	Level	Level	Log level	Level	Level
Between × *Post*	-0.23***	-0.35***	-0.31***	-0.15	-0.46***	-0.45***
	(0.05)	(0.07)	(0.07)	(0.10)	(0.12)	(0.12)
Non-aligned × *Post*	-0.15***	-0.28**	-0.28**	-0.05	-0.82***	-0.82***
	(0.05)	(0.12)	(0.12)	(0.07)	(0.12)	(0.12)
Observations	405,454	553,720	539,595	98,111	160,468	158,983
Event period	2014Q1	2014Q1	2014Q1	1979Q4	1979Q4	1979Q4
Sample period	2010Q1-19Q4	2010Q1-19Q4	2010Q1-19Q4	1977Q4-85Q4	1977Q4-85Q4	1977Q4-85Q4
Estimator	OLS	PPML	PPML	OLS	PPML	PPML
Source × time FE	Yes	Yes	Yes, ex. RU	Yes	Yes	Yes, ex. SU
Destination × time FE	Yes	Yes	Yes, ex. RU	Yes	Yes	Yes, ex. SU

Note: The table reports estimates of equation 2 using estimation method indicated in row "Estimator". *Post* is an indicator variable that turns to 1 from the quarter specified in row "Event period". The dependent variable is the (log) level of bilateral cross-border credit between all available source and destination countries. "Between" equals 1 if the source and destination country do not belong to the same geopolitical bloc. "Non-aligned" equals 1 if at least one country in the pair is in the nonaligned bloc. Geopolitical blocs defined following Gopinath et al. (2025). Columns (3) and (6) exclude Russia and the Soviet Union, respectively. All regressions include time-varying fixed effects (FE), and source × destination pair fixed effects.
Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 6: **Cross-border bank credit** – Fall of Berlin wall and Global financial crisis

	Fall of Berlin wall		Global financial crisis	
	(1)	(2)	(3)	(4)
	Log level	Level	Log level	Level
Between × *Post*	0.14	-0.16	-0.00	0.09
	(0.11)	(0.16)	(0.05)	(0.06)
Non-aligned × *Post*	-0.09	-0.00	-0.04	0.01
	(0.06)	(0.09)	(0.05)	(0.06)
Observations	282,210	407,246	213,806	299,945
Event period	1989Q4	1989Q4	2008Q3	2008Q3
Sample period	1985Q4-00Q4	1985Q4-00Q4	2003Q3-10Q4	2003Q3-10Q4
Estimator	OLS	PPML	OLS	PPML
Source × time FE	Yes	Yes	Yes	Yes
Destination × time FE	Yes	Yes	Yes	Yes

Note: The table reports estimates of equation 2 using estimation method indicated in row "Estimator". *Post* is an indicator variable that turns to 1 from the quarter specified in row "Event Period". The dependent variable is the (log) level of bilateral cross-border credit between source and destination countries. "Between" equals 1 if the source and destination country do not belong to the same geopolitical bloc. "Non-aligned" equals 1 if at least one country in the pair is nonaligned. Geopolitical blocs defined following Gopinath et al. (2025). All regressions include time-varying fixed effects (FE), and source × destination pair fixed effects.
Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 7: **Trade in goods** – Russia's invasion of Ukraine in 2022 and Fall of Berlin wall

	Invasion of Ukraine					Fall of Berlin wall		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Between × *Post*	-0.10***	-0.20***	-0.24***	-0.23***	-0.09***	0.71***	0.55***	0.62***
	(0.02)	(0.03)	(0.04)	(0.04)	(0.03)	(0.06)	(0.06)	(0.08)
Non-aligned × *Post*	-0.06***	-0.06*	-0.05	-0.05	-0.03	0.02	-0.03	-0.02
	(0.02)	(0.04)	(0.04)	(0.04)	(0.03)	(0.04)	(0.04)	(0.04)
Observations	637,144	893,310	893,310	893,310	881,730	757,262	1,273,613	1,252,149
Event quarter	2022Q1	2022Q1	2022Q1	2022Q1	2022Q1	1989Q4	1989Q4	1989Q4
Sample period	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2	2017Q1-24Q2	1985Q4-00Q4	1985Q4-00Q4	1985Q4-00Q4
Estimator	OLS	PPML	PPML	PPML	PPML	OLS	PPML	PPML
Source × time	Yes	Yes	Yes	Yes	ex. RU	Yes	Yes	ex. SU
Destination× time	Yes	Yes	Yes	Yes	ex. RU	Yes	Yes	ex. SU
UN bloc	Quartiles	Quartiles	Neutral	Protest	Quartiles	Quartiles	Quartiles	Quartiles

Note: The table reports estimates of Equation 2 using estimation mehtods indicated in row "Estimator". *Post* is an indicator variable that turns to 1 from the quarter specified in row "Event Period". The dependent variable is the (log) level of bilateral cross-border credit between source and destination countries. "Between" equals 1 if the source and destination country do not belong to the same geopolitical bloc. "Non-aligned" equals 1 if at least one country in the pair is nonaligned. Geopolitical blocs marked "Quartiles" are defined following Gopinath et al. (2025); "Neutral" and "Protest" are defined in Section 1.2. All regressions include time-varying fixed effects (FE), and source × destination pair fixed effects. Columns (5) and (8) exclude Russia and the Soviet Union, respectively. Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Table 8: **Identifying the effect of trust**: Secured vs. unsecured lending – All periods

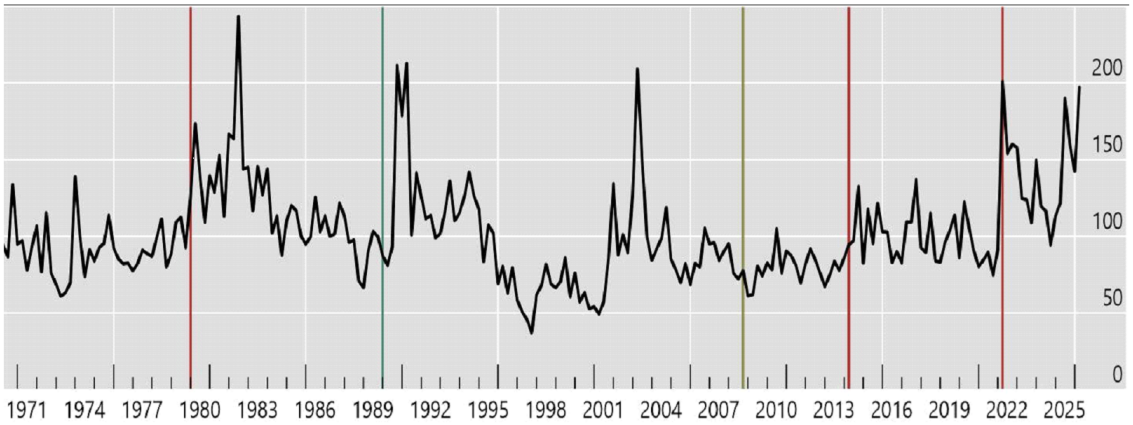
	Secured lending	Unsecured lending
Between × *Post*	-0.14	-0.44**
	(0.17)	(0.21)
Nonaligned × *Post*	-0.07	-0.31***
	(0.26)	(0.10)
Observations	126,642	209,361
Event quarter	1989Q4	1989Q4
Sample period	1985Q4-00Q4	1985Q4-00Q4
Estimator	PPML	PPML
Source time	Yes	Yes
Destination time	Yes	Yes

Note: The table reports estimates of equation 2 using PPML. The dependent variable is the (log) level of bilateral cross-border secured lending between source and destination countries in column (1) and the (log) level of bilateral cross-border unsecured lending between source and destination countries in column (2). "Between" equals 1 if the source and destination country do not belong to the same geopolitical bloc. "Non-aligned" equals 1 if at least one country in the pair is nonaligned. Geopolitical blocs defined following Gopinath et al. (2025). *Post* is an indicator variable that turns to 1 from 1989Q4. All regressions include time-varying fixed effects (FE), and source × destination pair fixed effects. Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Appendix A: Geopolitical risk around selected events

Are the geopolitical events described above discernible in the geopolitical risk (GPR) index of Caldara and Iacoviello (2022). The GPR index is a widely-cited measure of geopolitical risk constructed from text analysis of news articles, tracking the frequency of keywords related to geopolitical tensions in a broad sense, including wars, terror attacks, military buildups, etc. Figure 8 shows the overlap of spikes in the GPR index for some of the geopolitical events under study; the invasion of Afghanistan in 1979 and the invasion of Ukraine in 2022. The GPR index casts a broader net than foreign policy positions of nations – such as the Ideal Point Distances of Bailey et al. (2017). It increases only marginally after Russia's annexation of Crimea in 2014.

Figure 8: Historical episodes and GPR index, quarterly average



Source: Caldara and Iacoviello (2022).

Note: Red vertical lines mark the starting points of adverse geopolitical events (Soviet invasion of Afghanistan in 1979, Russia's annexation of Crimea in 2014, as well as Russia's invasion of Ukraine in 2022), while the green vertical line marks the an event of geopolitical convergence (the fall of the Berlin Wall in 1989). The gray vertical line marks the peak of the global financial crisis (September 2008).

Appendix B: Alternative definition of geopolitical blocs

Geopolitical blocs can be defined based on the UN General Assembly vote on 7 April 2022 on Russia's suspension from the Human Rights Council. We classify countries by their votes as follows: "No" is taken as East, "Yes" as West, and "Abstained" represents the non-aligned group, augmented by non-UN members. In Version A, UN members that chose to be absent are grouped with the non-aligned; in Version B, they are grouped with the East.

UNGA vote suspending Russia from the Human Rights Council (7 April 2022)

Yes (93)		Abstained (58)	Absent (18)	No (24)
Albania	Monaco	Angola	Afghanistan	Algeria
Andorra	Montenegro	Bahrain	Armenia	Belarus
Antigua and Barbuda	Myanmar	Bangladesh	Azerbaijan	Bolivia
Argentina	Nauru	Barbados	Benin	Burundi
Australia	Netherlands	Belize	Burkina Faso	Central African Republic
Austria	New Zealand	Bhutan	Djibouti	China
Bahamas	Norway	Botswana	Equatorial Guinea	Congo
Belgium	Palau	Brazil	Guinea	Cuba
Bosnia and Herzegovina	Panama	Brunei Darussalam	Lebanon	Eritrea
Bulgaria	Papua New Guinea	Cambodia	Mauritania	Ethiopia
Canada	Paraguay	Cameroon	Morocco	Gabon
Chad	Peru	Cape Verde	Rwanda	Iran
Chile	Philippines	Egypt	Sao Tome and Principe	Kazakhstan
Colombia	Poland	El Salvador	Solomon Islands	Kyrgyzstan
Dominica	Portugal	Gambia	Somalia	Laos
Comoros	Romania	Ghana	Turkmenistan	Mali
Congo DR	Saint Lucia	Guinea-Bissau	Venezuela	Nicaragua
Costa Rica	Samoa	Guyana	Zambia	North Korea
Côte d'Ivoire	San Marino	India		Russia
Croatia	Serbia	Indonesia		Syrian Arab Republic
Cyprus	Seychelles	Iraq		Tajikistan
Czechia	Sierra Leone	Jordan		Uzbekistan
Denmark	Slovakia	Kenya		Vietnam
Dominican Republic	Slovenia	Kuwait		Zimbabwe
Ecuador	Spain	Lesotho		
Estonia	Sweden	Madagascar		
Fiji	Switzerland	Malaysia		
Finland	Timor-Leste	Maldives		
France	Tonga	Mexico		
Georgia	Türkiye	Mongolia		
Germany	Tuvalu	Mozambique		
Greece	Ukraine	Namibia		
Grenada	United Kingdom	Nepal		
Guatemala	United States	Niger		
Haiti	Uruguay	Nigeria		
Honduras		Oman		
Hungary		Pakistan		
Iceland		Qatar		
Ireland		Saint Kitts and Nevis		
Israel		Saint Vincent Grenadines		
Italy		Saudi Arabia		
Jamaica		Senegal		
Japan		Singapore		
Kiribati		South Africa		
Korea		South Sudan		
Latvia		Sri Lanka		
Liberia		Sudan		
Libya		Suriname		
Liechtenstein		Swaziland		
Lithuania		Tanzania		
Luxembourg		Thailand		
North Macedonia		Togo		
Malawi		Trinidad and Tobago		
Malta		Tunisia		
Marshall Islands		Uganda		
Mauritius		United Arab Emirates		
Micronesia		Vanuatu		
Moldova		Yemen		

Source: Resolution adopted by the UN General Assembly entitled "Suspension of the rights of membership of the Russian Federation in the Human Rights Council", Resolution A/RES/ES-11/3; Meeting record A/ES-11/PV.10; Digital Library Record https://digitallibrary.un.org/record/3967778?ln=en.

Appendix C: The BIS locational banking statistics

The LBS are collected in the "banks-to-country" format, from which we construct a "country-to-country" network in two steps. First, we reconcile interbank positions. Denote banks' interbank assets (and liabilities) by IBA (and IBL). When a bank lends from a source country s to another bank located in destination country d, in principle $IBA_{sd} = IBL_{ds}$, since one bank's interbank asset is the other's liability. The reported amounts differ when the coverage of institutions or classification of counterparties differ between reporting countries.[25] We reconcile interbank positions by taking the maximum between them, $IB_{sd} = max\{IBA_{sd}, IBL_{ds}\}$. This includes official reserves placed by central banks with international banks. Second, we include all positions with non-banks, comprising firms, households and the official sector. Banks in s extend credit to non-banks in d, denoted by NBA_{sd}. In addition, non-banks in s may be placing deposits with banks in d, reported by banks in d as liabilities to non-banks in s, NBL_{ds}. Those deposits placed by firms and households constitute cross-border credit to international banks.

Combining all cross-border claims of country s on d yields total cross-border positions,

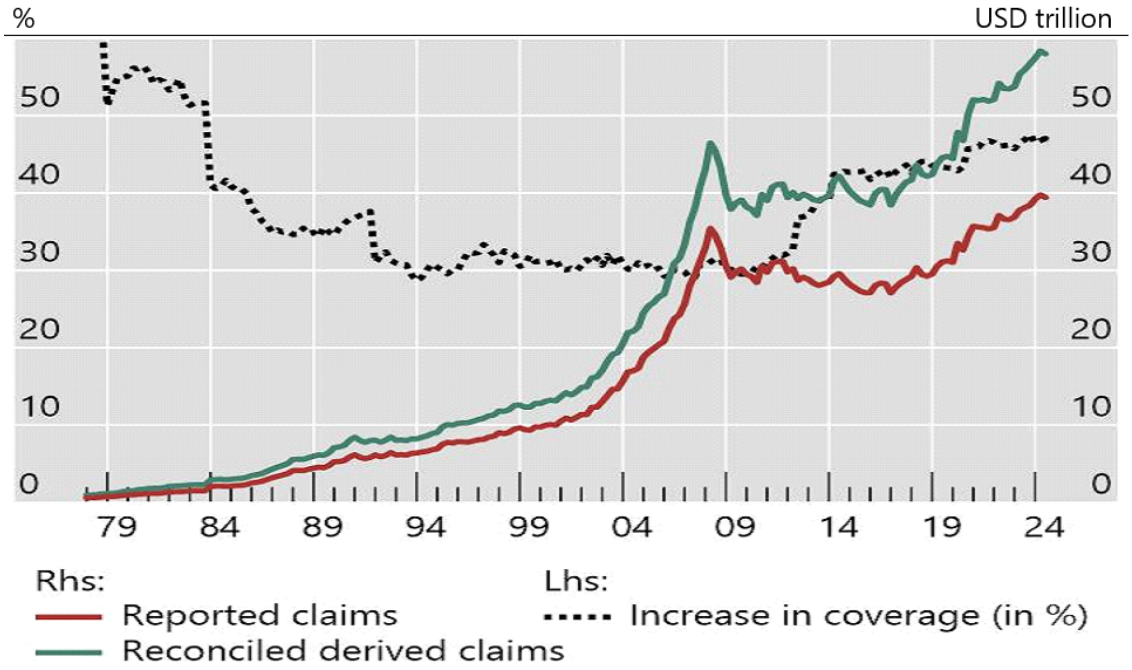
$$XB_{sd} = IB_{sd} + NBA_{sd} + NBL_{ds}. \tag{4}$$

The procedure of reconciliation and mirroring returns a network that contains all reported positions intermediated via banks between origin and destination countries, and maximises coverage in the process.[26] The enhanced data means that the aggregate value of cross-border credit captured by our dataset increases substantially, from around $40 trillion in the reported "banks-to-country" format, to almost $60 trillion in the enhanced "country-to-country" in 2024 Q2 (Figure 3).The network only leaves out direct positions between non-banks, which are captured in other international datasets, e.g. the IMF's CPIS and CDIS. The resulting dataset covers between 3,000 and 12,000 bilateral bank positions between pairs of countries every quarter, amounting to more than 1 million observations over the decades. The empirical analysis uses (log) levels of quarterly positions in millions of US dollars; where growth rates are used, they are based on quarterly changes adjusted for breaks in series and exchange rate fluctuations.

[25] The reasons for differences in reported legs are detailed in Pradhan and Silva (2019).

[26] See Brei and von Peter (2018) and Pradhan and Silva (2019).

Figure 9: Reported vs derived reconciled cross-border bank credit



Source: BIS Locational Banking Statistics, authors' calculations.
Note: 1) Excluding claims unallocated by country.

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