# Discussion of: A geopolitical shock to bank assets and monetary policy transmission

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# Summary of the paper

- Russia's invasion 24 Feb 2022 $\rightarrow$ asset write-downs
- Identification: bank-level exposure measure as loans + bonds to Russian/Belarusian borrowers over equity (2021)

  $\rightarrow$ % of equity potentially lost if Russian/Belarussian exposures are written off
- Data: MMSR, AnaCredit, SHS-G, iMIR, iBSI
- Sample period 2021:M3–2023:M2
- Key questions:
  - How does the shock affect bank funding and lending?
  - What are the implications for monetary policy transmission through banks?

# Deposits

- $Post * Expose_b^{Russia}$ with firm-day & firm-bank FEs
- Sample ends July 26, 2022 (pre-ECB tightening)
- Findings:
  - Exposed banks paid 5bps higher (unsecured) deposit rates
  - Lower deposit volumes, especially from large corporates (WLS more pronounced)
  - Consistent across MMSR and iMIR data (aggregate bank-month level)
- Local projections (iMIR data) for four months after invasion $Invasion_{t-k} \cdot D(Expose_b^{Russia} \geq 2\%)_+ \cdot X_{b,t-k}$

# Loans

- Loan volumes drop $\sim 2.9\%$ for exposed banks
- No significant change in loan rates
- Local projections for four months after invasion $\rightarrow$ Lending trough $\sim 2$ months post-invasion

**Linking both** $Post \cdot \Delta r_b^{invasion}$ on banks' loan volume:

- Banks with a stronger increase in deposit interest rates [-5;5] days around the invasion issue less loans

**Geopolitical risk relates to the bank lending channel via deposit market disruptions**

**Real effects** Weighted firm exposure

- Negative firm total credit, total assets, turnover - **"Silent tightening"**

# Monetary transmission

- Local projections with full sample period (five ECB policy rate hikes) five months after MP shock (change in DFR and monetary policy surprises)
- Deposit rates $\uparrow$ 40bps more for exposed banks
- Loan rates $\uparrow$ 30bps more for exposed banks $\rightarrow$ amplified pass-through
- "Silent tightening" amplifies aggregate effects of monetary tightening

**A geopolitical shock accelerates the pass-through of policy actions and thereby further restrains aggregate demand**

# Overall impression

- Extensive checks: deposit size/type, exposure definitions, placebo test with COVID, alternative specifications and fixed effects
- Rich data and robust identification strategy
- Timely and policy relevant paper:
  - Geopolitical shocks propagate via financial intermediaries
  - Amplify monetary tightening through stressed banks
  - Central banks must consider transmission asymmetries
  - Implications for macroprudential policy
- Makes a nice contribution to the literature and findings are very interesting

Good luck!!!!!

# Comments 1: Exposure measure

- Exposure assumes full loss/banks reacted uniformly or instantly $\rightarrow$ Some wrote down assets early, others delayed recognition, hedged exposures...
- Findings reflect perceived exposure? Did early write-downs correlate with stronger effects?
- Dynamic exposure measure post-invasion (quarterly or rolling)
- Banks' exposure in 2021; Beginning of sample or war?
- Timeline of sanctions/SWIFT bans/asset seizures and exposure
- Show distribution of exposure for outliers
- Exposure by country, e.g. exposure depends on proximity to the conflict and stronger economic linkages with Russia
- High exposed banks operate in top exporting sectors in Russia? (direct vs indirect)
- Exposure-weighted bank-level GPR (standardized version) as in Dieckelmann et al. (2025)

# Comments 2: Methodology

- Interaction of *Post* with all bank controls in baseline
- Nonlinear effects: above an exposure threshold (or deposit size)
- Event study around geopolitical escalations/sanctions (SWIFT bans, asset freezes)?
- Exposure to other high-risk regions (eg. Ukraine) to test for spillovers and regional fragility
- Use zero-exposed banks as control
- Placebo test with period where there were no geopolitical shock
- Unstable environments, shifts in policy, sentiment, or risk perception $\rightarrow$ TVP-LP (Inoue et al. 2024)
- Synthetic control approach for pre-existing trends
- Generalized propensity score weighting (Fong et al. 2018)

# Comments 3: Deposits

- Explore depositor flight vs. rate compensation behavior
- Banks with exposure to Russian subsidiaries of euro firms (e.g., German or French multinationals)?
- Impulse responses for deposits across high vs low exposure banks
- 2SLS for the joint determination of deposit rates and volumes
- Explore whether banks with similar exposure show correlated deposit rate movements, suggesting peer effects
- Reputational risk could play a role in deposit flight beyond balance sheet exposure (media sentiment or social analytics)
- High exposed banks experienced abnormal stock price reaction?

# Comments 4: Lending

- Parallel trends: high vs low banks lending before invasion
- Credit contraction due to precautionary contraction (impairments increase) vs bank balance sheets deterioration (Avril et al. 2025)
- Why no loan rate repricing? Competition?
- New relationships, extensive margin, (ILS)$\times$time FE
- Compare results with literature on other shocks (eg. trade shocks)
- Sectoral borrower impact (exporters, reliant on inputs outside EU, energy intensive sectors) and triple interaction
- Firms shift to non-bank financing (e.g., bond issuance)?
- How sticky are banking relationships in times of crisis?
- Bank specialization in specific sector or trade finance

# Comments 5: Transmission

- Subsequent tightening period ECB & geopolitical escalations/sanctions
- Country time FEs
- Did geopolitical effects persist throughout tightening cycle or coefficients already appears to fade in Q4 2022
- Monetary policy effects were amplified not just by asset losses, but by behavioral shifts in liquidity management
- How should central banks communicate during geopolitical shocks to avoid unintended tightening?

# Some open questions

1. How persistent are these effects—do they fade, compound or reverse?
2. Are certain borrower segments disproportionately affected?
3. Could regulatory responses mitigate transmission asymmetry?
4. Cross-country comparisons (France and Italy?)
5. Clarify between geopolitical risk vs. general bank fragility
6. External validity to other shocks and what is % of cross-border lending from euro area resident banks reported in the data
7. Could bank level political ties or governance structures influence exposure effects?

# Global banking?

- Pradham et al. 2025; Niepman and Shen (2025): $\rightarrow$ banks reduce cross-border lending to countries with elevated geopolitical risk but continue lending to those markets through foreign affiliates $\rightarrow$ banks reduce domestic lending when geopolitical risk rises abroad, especially when they operate foreign affiliates in affected countries
- Citigroup is still winding down its operations in Russia
- Raiffeieisen Bank International (RBI) and UniCredit, continue to operate their Russian subsidiaries, despite mounting political and regulatory pressure to exit