



JOHNS HOPKINS
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Geopolitical Risk and Global Banking

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Contribution



»»A new set of facts on US global banks' response to increased geopolitical risk

- US Global banks are US banks operating internationally
- Geopolitical risk captured by text-based indexes as in Ahir et al. (2023), Caldara and Iacoviello (2022), Hassan et al (2023).
- Bank behavior assessed by exploiting a wealth of confidential administrative data.

»»A simple model of transmission of expropriation risk abroad to banks

Contribution (Cont.)



- » Paper reports many facts, using multiple data set and research designs
- » Main point of the model and in the data:
 - Cross-boarder claims are funded with home-country deposits. If claims are expropriated, depositors still need to be repaid
 - Credit extended through branches and subsidiaries is funded (at least partially) locally. If expropriated, depositors are taken care by the local government.
 - This introduces a difference in the loss-given-default under the two lending strategies that can explain the documented bank behavior

Main comment



»Is geopolitical risk \equiv expropriation risk?

- This identity is at the core of the connection between the model and the data and the interpretation of the empirical findings

»Authors do not provide much evidence for this other than offering a few examples and stating:

- “Throughout history, geopolitical conflicts have led to the seizure of foreign bank assets”

Authors provide the following examples



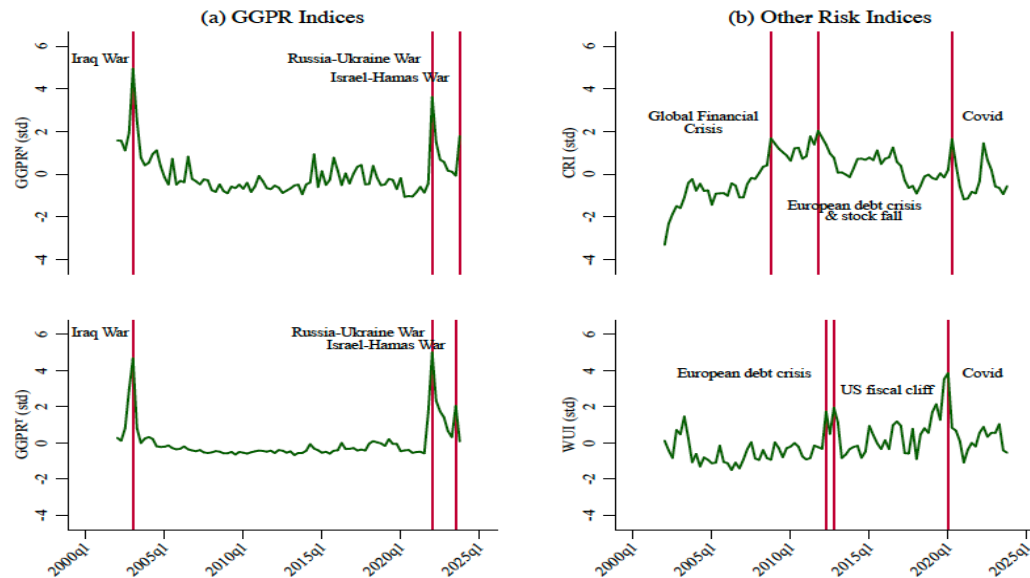
- » 1917 Russian Bolshevik Revolution and the Cuba Revolution
 - Coups are typical “country risk” events, not geopolitical events.
- » Venezuela nationalized Banco de Venezuela.
 - US is “nationalizing” TickTock. Is this geopolitical risk or country risk? Why not picked up by Hassan et al index?
- » In 1957, Egypt nationalized British and French banks.
 - Retaliatory measure?
- » During World War II, Germany and Japan expropriated foreign-owned banks
 - Yes, but also did so much more than that
 - Geopolitical risk broader set of risks than expropriation risk
- » Russia’s response to sanctions in 2023-2024 has included the state takeover of assets from European banks.

Main comment (cont)



- » There is a difference between geopolitical risk and expropriation risk
 - Iran launching missile attack on Israel is a “geoshock” for US global banks but not an “expropriation event”
 - Russia invasion of Ukraine was a “geoshock” but not an “expropriation event”
 - **No immediate reason to expect Russia to expropriate US banks at home**
 - **However, US sanction on Russia heighten expropriation risk**

Geopolitical and other risks? Sharpen the evidence



Some suggestions on how to dig more into this

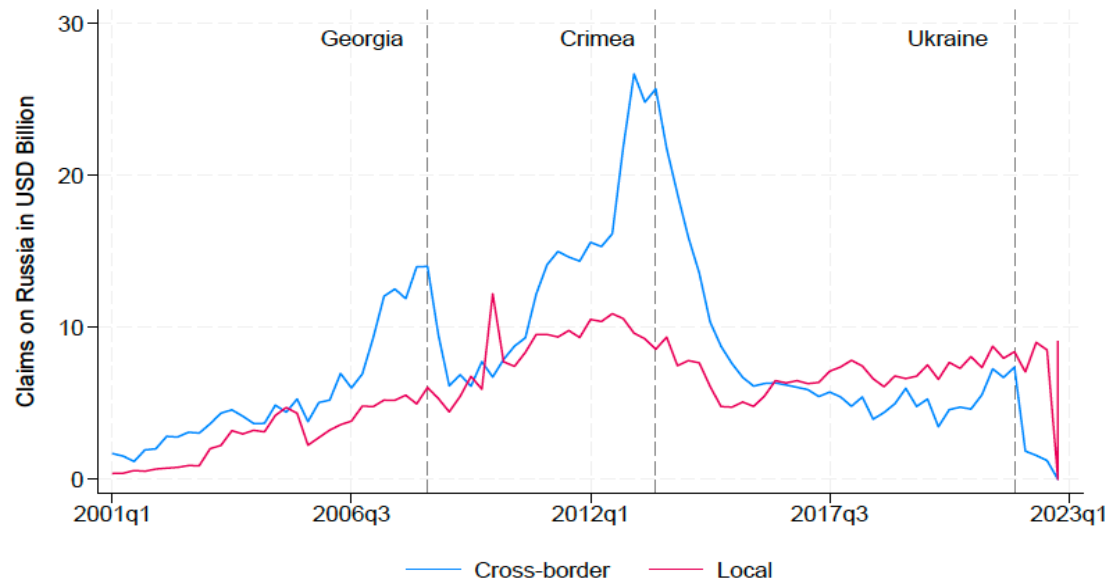


- » Construct and index of “expropriation risk” and correlate it with the indexes of geopolitical risk
 - You can orthogonalize and look at the two components separately
 - Expropriation component should drive the results (Treatment)
 - Orthogonal complement should behave as WUI (Placebo)
- » Sovereign default during the European crisis was tightly linked to bank default
 - Restrict the sample to those geographies and periods
- » Run analysis with and w/o Russia
 - Are the results driven by sanctions on Russia? Paper would be about spillover effects of sanctions

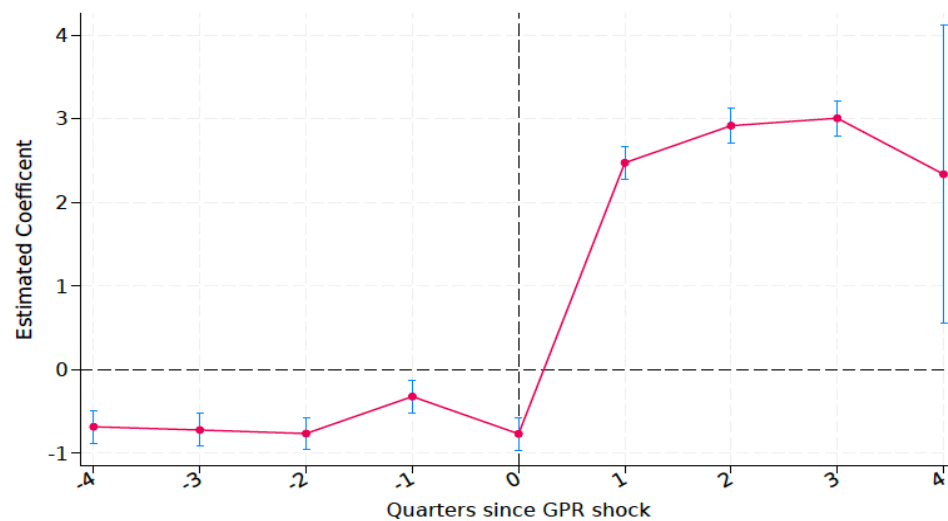
Are results driven by sanctions on Russian?



(b) U.S. Banks' Claims on Russia



Are results driven by Sanctions on Russian? (Cont.)



Beyond this paper



»»What is Geopolitical Risk? Caldara and Iacoviello (2022):

Category	Search queries
Threats	
1. War threats	War words AND threat words
2. Peace threats	Peace words AND peace disruption words
3. Military buildup	Military words AND buildup words
4. Nuclear threats	Nuclear bigrams AND threat words
5. Terrorist threats	Terrorist words AND threat words
Acts	
6. Beginning of war	War words AND war begin words
7. Escalation of war	Actors words AND actors fight words
8. Terrorist acts	Terrorist words AND terrorism act words

»»What about “NATO”, “North Korea”, “Energy Security”, “Cable cutting”, “Sabotage”, “Cyber warfare”, “Spying balloons”?

Other comments



- » In the regression of bank default probabilities you have perceptions of default. Can you use objective measures like credit rating changes?
- » Geopolitical risk is global in nature ($\text{Geo} \equiv \text{Earth}$), what does it mean to measure country-specific geopolitical risk? You separate between common and country specific component of the indexes and focus on the former
- » Threats vs acts: does it really make a difference?
- » Distance as a measure of exposure to geopolitical risk
- » Related literature: say more on Fillat et al. (2023) and Dell'Ariccia and Marquez (2010)
- » Paper is about US global banks not global banking (no analysis of impact on foreign banks)

Conclusions



- » New interesting evidence about behavior of US global banks that face geopolitical risk
- » More evidence is needed to show that expropriation risk is an important component of geopolitical risk and the effects are not driven by sanctions on Russia

Thank you

