

Discussion of "Geopolitical risk and cross-border bank lending"

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Summary and Contribution

Research question: How does geopolitical risk affect cross-border bank lending?

Main findings: Authors find that a one standard deviation increase in geopolitical risk causes cross-border lending to decline by around 4% after one year.

Contribution:

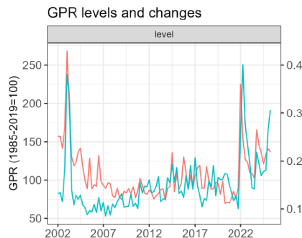
- Exploration of the effects of geopolitical risk measured at firm-level on UK bank's cross border lending to individual firms.
- Rich empirical evidence on heterogeneity with respect to:
 - GPR components (sanctions versus other)
 - Lending to different sectors (financial, energy, defence)
 - Bank characteristics
 - Macroeconomic characteristics of countries

Comment 1: Underlying Variability in GPR

Issue: The large exposure dataset spans 2015Q1–2024Q4, so only limited variation in geopolitical risk can be exploited:

- 22Q1–Q2 (Russia's invasion of Ukraine), 23Q4 (Gaza war?)
- Excluded: 14Q1–Q4 (Russia's annex. of Crimea, E. Ukraine)
- Covid-19: 2020–2023 (distorts the evidence on cross-border flows)

Figure 1: GPR Index, GPR-EA Index, GPR "Risk" measure



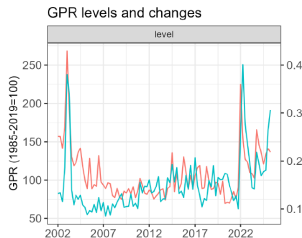
Source: Caldara and Iacoviello (2022), RRS (2025).

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Possible solution: Could a more aggregated version of the “cross-border lending to individual firms” database be used to extend the sample, or is an aggregate proxy to this database available?

Comment 2: GPR "Risk" measure (I)

RRS (2025)'s GPR "Risk" measure searches firms' earning calls transcripts:

- Call between the board, investors, analysts, and press to discuss financial results.
- *"... the percentage of sentences in an earnings call that mention a synonym for risk or uncertainty, in the context of geopolitical tensions."*

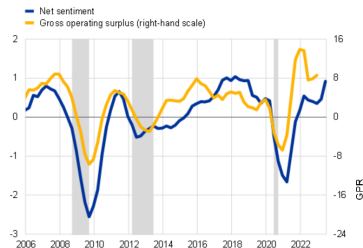
Issue: The variability in the GPR "Risk" measure is stemming from the call's participants subjective perception of geopolitical risk.

- Is it not a "too noisy" measure of geopolitical risk? (They are economic, not geopolitical analysts)
- What additional information does it provide beyond the GPR Index for a given country? (All call participants read the same US-UK based newspapers as Caldara and Iacoviello (2022))
- Is there a risk of measurement error? (COVID-19 period, seasonality, end of the sample)

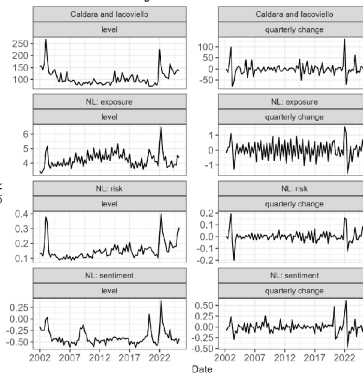
Comment 2: GPR "Risk" measure (II)

Figure 2: EA earnings call profit sent. vs. NFC gross op. surplus, GPR "Risk" measure

(Z-score; year-on-year percentage changes)



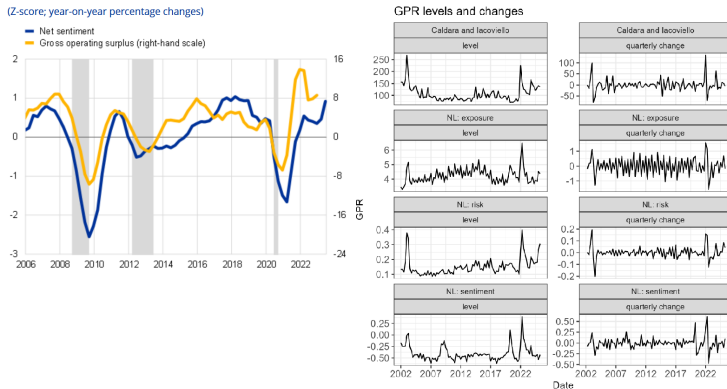
GPR levels and changes



Source: Andersson et al. (2023), Caldara and Iacoviello (2022), RRS (2025).

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Possible solution: Use a country-level GPR measure (global component) with the firm-level GPR "Risk" measure (firm-specific perception component):

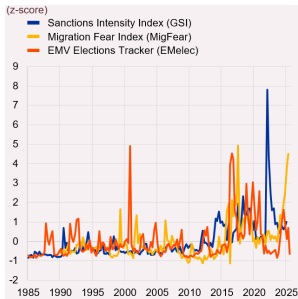
- If multicollinearity is a problem, regress the GPR "Risk" measure on the country GPR index and use the residual as the firm-specific component.

Comment 3: GPR "Risk" measure - sanctions

RRS (2025) find that *"... banks are much more reluctant to lend to countries and sectors where their asset may be seized if sanctions are imposed."*

- This is a key component for both micro and macro empirical evidence.

Figure 3: Global Sanction Index (GSI)



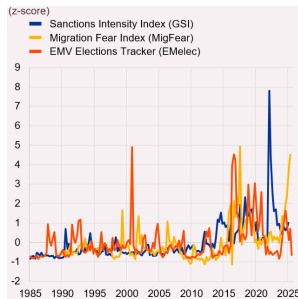
Source: LSEG GSI, ESRB (2026).

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Possible robustness check: Use the Global Sanctions Index, which tracks the growth of global sanctions, as a hard measure.

Comment 4: Macro - Modelling the "Pure" GPR shock

Issue: In RRS (2025), LP estimates show that sanction-related GPR shock resembles supply shock, while in high credit growth countries reflects demand side.

Table 1: Short-run estimated IRFs, zero and signs restrictions on impact IRFs.

Shocks → ↓ Variables	RRS (2025) GPR shock:					"Textbook" SVAR			
	GPR Baseline	GPR decomp. Sanctions ≈ supply		Credit growth High ≈ demand		"Pure" GPR shock	AS shock	AD shock	MP shock
Geopolitical risk	+	+	+	+	+	+	0	0	0
CPI Index	+	+	ns/+	+	+ / ns	?(+)	+	+	-
Policy rates	+	+	+	+	ns	?(+)	+	+	+
Effective Exchange Rate	-	-	ns/-	-	- / ns	?	?	?	+
Real GDP	-	-	-	-	ns / +	-	-	+	-
Equity prices	-	-	ns	-	-	-	-	+	-
House prices	ns	ns	ns	-	+	-	-	+	-
Cross-border lending	-	-	- / ns	-	-	-	-	+	-

Notes: (+/-) sign restrictions, (0) zero restrictions, (?) not restricted, (ns) not significant.

Source: RRS (2025), own computation.

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	GPR Baseline	GPR decomp.		Credit growth		"Pure" GPR shock	AS shock	AD shock	MP shock
		Sanctions ≈ supply	Other	High ≈ demand	Low				
Geopolitical risk	+	+	+	+	+	+	0	0	0
CPI Index	+	+	ns/+	+	+ / ns	?(+)	+	+	-
Policy rates	+	+	+	+	ns	?(+)	+	+	+
Effective Exchange Rate	-	-	ns/-	-	- / ns	?	?	?	+
Real GDP	-	-	-	-	ns/+	-	-	+	-
Equity prices	-	-	ns	-	-	-	-	+	-
House prices	ns	ns	ns	-	+	-	-	+	-
Cross-border lending	-	-	- / ns	-	-	-	-	+	-

Notes: (+/-) sign restrictions, (0) zero restrictions, (?) not restricted, (ns) not significant.

Source: RRS (2025), own computation.

Possible solution: Identify other similar structural shocks and compare IRFs.

- GPR shock only: IRFs may capture the GPR shock and associated supply/demand/policy responses.
- GPR shock + others: IRFs capture "pure" GPR shock and the relative strength of other similar shocks.

Thank you!

and good luck with the paper.

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