

# Geopolitical Risk and Global Banking\*

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## Abstract

This paper shows that internationally active banks play a significant role in propagating foreign geopolitical risk to the domestic economy. Using multiple supervisory data on U.S. bank lending over the past four decades, we document that banks tighten domestic lending standards and reduce lending to U.S. firms in response to rising geopolitical risk abroad. This effect is driven by banks with high geopolitical risk exposure through foreign operations. In particular, the mode of banks' foreign operations influences the strength of the spillover effect. While U.S. banks reduce cross-border lending to countries of increasing geopolitical risk, their lending through branches and subsidiaries in those countries continues, even though the riskiness of their loan portfolios increases. These results indicate that difficulties with divesting foreign assets exacerbate spillovers of foreign geopolitical risk to U.S. domestic credit.

*Keywords:* global banking, geopolitical risk, international spillovers, lending standards, credit provision

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