# Conflict at the Border: Bank Lending under Geopolitical Tension

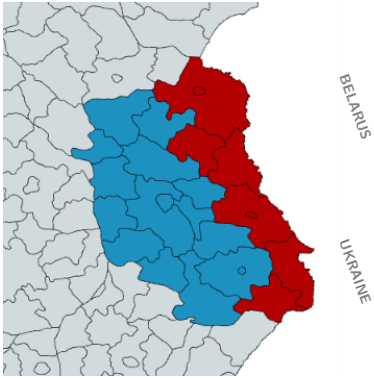
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— *Discussion by Matias Ossandon Busch* —

# Setting and identification




Border-zone counties (treated) Non-border counties (control)

*Example: Lubelskie voivodeship*

**Setting**

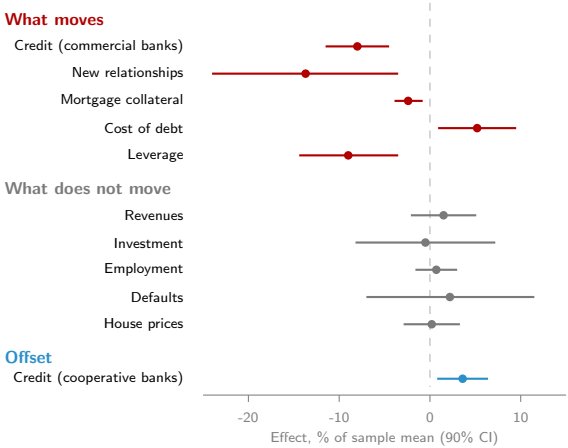
- Russian invasion of Ukraine, 2022:Q1
- NB300 large-exposure register
  23 banks, about 35k firms
- 2020:Q4–2023:Q4
  5 pre and 8 post quarters

**Identification**

- Treated: 37 eastern border counties
- Control: non-border counties x region
- Within-bank, *relative* effect

$$Credit_{b,f,t} = \beta_1 \, \text{Border}_f \times \text{Conflict}_t + \alpha_{ILST} + \kappa_{b,t} + \tau_{b,f} + \varepsilon_{b,f,t}$$

# Main results and magnitudes




## Heterogeneity

- Strong banks cut more
- Eastern exporters most affected
- Firm fundamentals: no role

## In money (rough†)

- $\approx$ USD 20k per relationship
- $\approx$ 1% of firm assets
- $\approx$ USD 60–100m in total
- Cooperatives offset about half: $-7.7\% \rightarrow -3.7\%$

Log outcomes in log points $\times 100$; other outcomes as % of the sample mean. Paper's Tables 2, 7, 8, 9, 10, OA.II.

† Back-of-the-envelope: geometric mean exposure; 3,100–4,300 border firms, about 1.15 relationships each (Table 1, OA.VI).

# Discussion: three points

- **(1) Why do unconstrained banks cut healthy firms?**
  - The null has little bite; the economics remain open.
- **(2) What happens inside banks?**
  - 2022 is a crowded year; 22 banks, correlated channels.
- **(3) Credit crunch or reallocation?**
  - Small magnitudes, substitution, relative effect.

# #1 Interpreting the credit decline

- **Credit falls, firms are fine, strong banks cut most.**
  - Each fact holds on its own but together they do not tell (yet) one consistent story.
- If border firms are disrupted, a credit decline is expected.
  - Nobody predicts that banks lend *more* next to a war.
  - Weak $H_0$: the natural benchmark is not "no change", but no cut to healthy firms.
- If firms do not react, as the paper shows, the decline feels much like a puzzle.
  - Why would a well-capitalised bank cut a healthy borrower?
  - "Precautionary risk management" names the answer but does not test it.
- Why it matters
  - The contribution likely lies in this puzzle, thus authors may want to lead with it.
  - A related question is whether this is a cut at all (see #3).

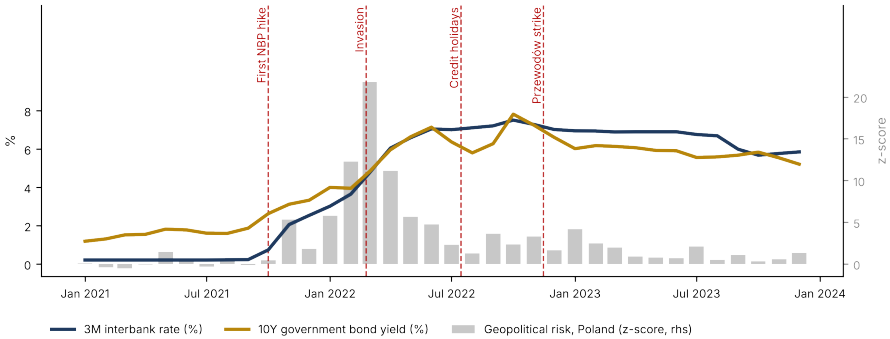
# #1 Interpreting the credit decline: suggestions

*The paper may benefit from testing precaution directly, rather than inferring it from what remains after FE absorption.*

1. **Provisions on performing border loans**
   - IFRS 9 staging and loss allowances (NBP supervisory data?)
   - Higher provisions without defaults $\Rightarrow$ banks fear a tail
2. **Who decided the cut: the bank or the firm?**
   - Did banks shrink credit lines, or did firms just use less of them?
   - Did border firms ask for fewer loans? (credit bureau requests)
   - Lines shrink, requests stable $\Rightarrow$ the bank decided
3. **Response to salient events**
   - Event study around the Przewodów strike (Nov 2022). See e.g. Garcia et al., 2022.
   - Credit reacts to news $\Rightarrow$ beliefs drive the cut

# #2 What happens inside banks: the 2022 context

*Paper: invasion repriced Polish sovereign risk; bond losses made exposed banks cut more.*




- **A crowded year:** rate hikes, credit holidays and CHF-loan provisions hit banks.
- **Yields follow policy:** the rise starts before the invasion; high yields stay after 2022.
- **Only 22 banks:** capital, bond holdings and foreign exposure are likely correlated.

Sources: FRED 3M interbank rate and 10Y yield; Caldara and Iacoviello (2022) GPR for Poland, in s.d. from its 2018–2021 mean.

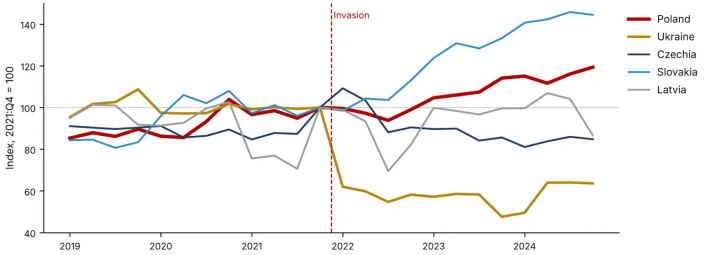
# #2 What happens inside banks: suggestions

*A few descriptive steps could show which bank features actually drive the results.*

1. **Is it one result or several?**
   - Are the high-capital, bond-heavy and eastern-exposed banks the same few banks?
   - Show the overlap, test the features together, drop one bank at a time
2. **Bond losses or better returns on bonds?**
   - Did bond-heavy banks buy more bonds in 2022, or sell at a loss?
   - Buying more $\Rightarrow$ credit moved to higher-yielding bonds, not lost capacity
3. **Who are the banks that cut?**
   - They may share traits unrelated to the war: owners, 2022 legal and relief costs (i.e. the CHF exposure + the credit holiday shock. See NBP 2022).
   - If foreign-owned banks drive the cut $\Rightarrow$ limits set abroad by parent groups?

# #2 What happens inside banks: a shock at the bank?

*Paper: the shock sits at the border firm; bank-level shocks are absorbed by bank×time FE.*

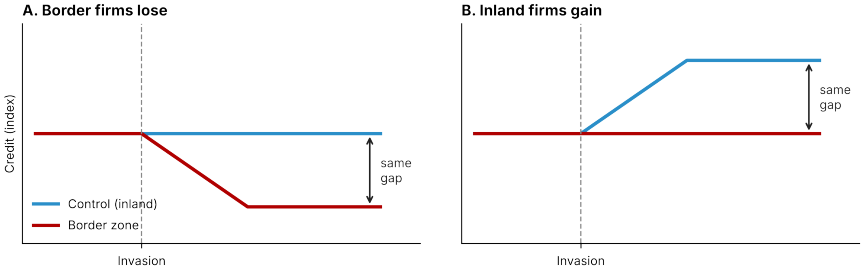



- Cross-border claims on Poland dip, then recover by end-2022 (Ukraine: −38%).
- But the liability side is not examined: bonds and foreign exposure are assets; deposits and parent funding are not studied.
- **Bank-specific shocks hit the periphery first:** banks under pressure may cut marginal borrowers (Alessandrini et al., 2009, Giannetti and Laeven, 2012), so the gap may reflect *where* banks cut.

Source: BIS, cross-border bank claims (USD), indexed to 2021:Q4 = 100.

# #3 Credit crunch or reallocation?

*The estimate is a gap between border and inland firms; it does not tell us which group moved.*




- **Case B is plausible in 2022:** defence industry, military-aid hub and refugees concentrate in inland cities.
- **Nationwide controls help, but:** they share national shocks (refugees in big cities, defence spending), and control firms are larger and better placed to benefit (OA.VI).
- **Suggestion:** report credit *levels* by group, and split controls by distance to the border zone: if controls are affected too, the gap is biased (Berg et al., 2021).

# #3 Credit crunch or reallocation?

*The substitution results (Section 4.4.4) may be its most informative, and they come last.*

1. **Total credit per firm, across all lenders**
   - Add up commercial and cooperative credit for each border firm?
   - Small total change $\Rightarrow$ a shift between lenders, not a crunch.

2. **Public lending and guarantees**
   - BGK, the state development bank, is excluded but ran the war-related programmes
   - More BGK credit at the border $\Rightarrow$ a shift from private to public funding

3. **Borrowing through the firm's own group**
   - Did border firms' subsidiaries outside the zone borrow more instead?
   - Yes $\Rightarrow$ the "diversification" result reflects credit moving within the firm group

# Further comments / reactions

- **Export result:** the most interesting heterogeneity; worth developing (who these firms are, what happened to their exports).
- **Missing terms:** for firm-level interactions (exports, diversification, fundamentals), Conflict $\times$ Z is not absorbed by the fixed effects and should be reported.
- **Dependent variable:** outstanding credit also falls with repayments; separate new lending from amortisation and threshold exits.
- **Firm location:** treatment uses the registered seat; flag multi-site firms and groups with entities on both sides of the border zone.
- **Policy implications:** say what supervisors could do differently (e.g. the stabilising role of cooperative banks).

# Conclusion

- A carefully executed paper on how a war next door reaches domestic credit markets.
- The (relative) credit decline is convincing and robust across many dimensions.
- My main ask: the paper invests heavily in showing that credit falls, less in showing why. Shifting some of that effort to the explanation would make the contribution clearer.
- A possible repositioning: exploit more the story of commercial banks pulling back, compensated by cooperative banks, and firms barely affected.

# Literature

# Literature I


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