

Discussion of “Sanctions and Currencies in Global Credit” by Garofalo, Rosso, Vicquery

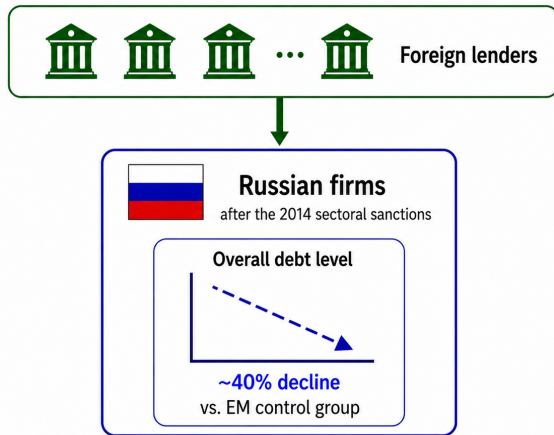
Yang Liu

University of Hong Kong

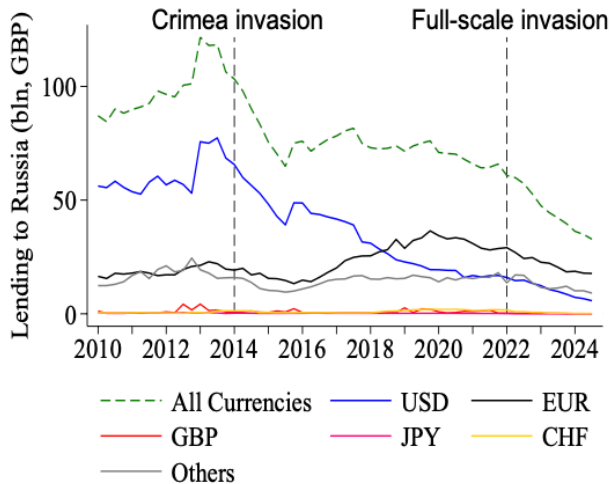
Sanction



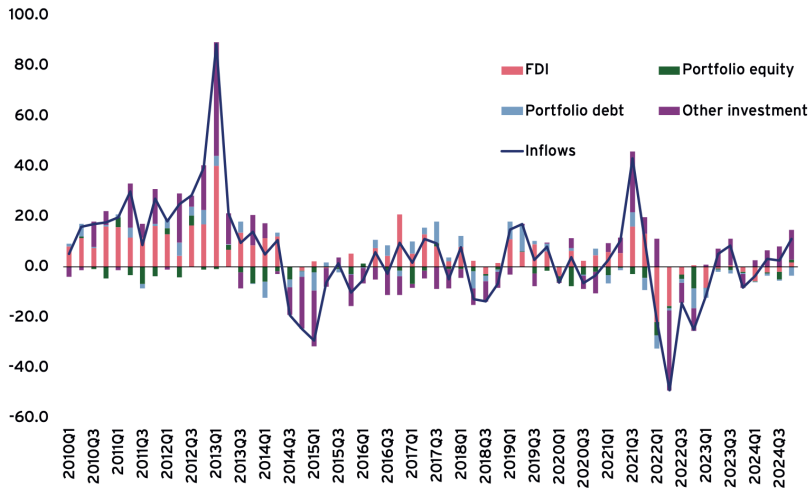
Global Lending falls



Global Lending falls



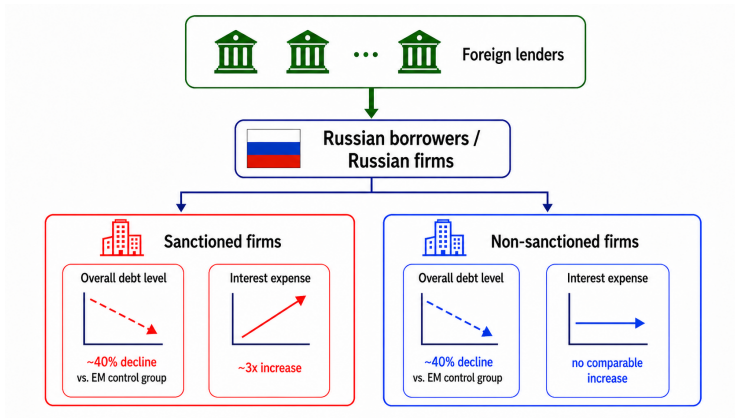
Global Lending falls



source: CEPR (2025)

Sanctioned vs Non-sanctioned Firms

- regulatory “de-risking”: financial institutions terminating relationships with certain clients or jurisdictions perceived as posing heightened compliance or reputational risks

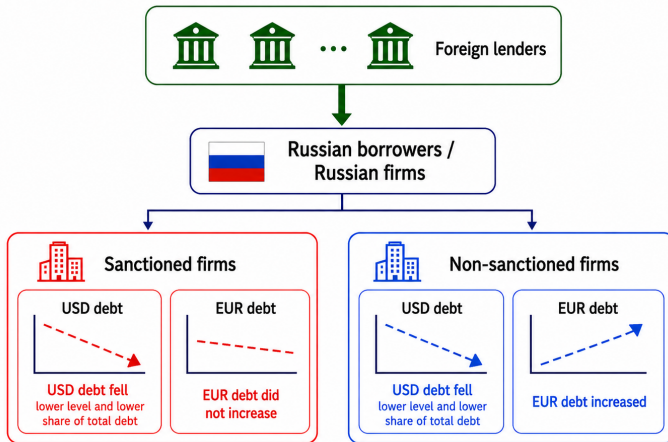


Sanctioned vs Non-sanctioned Firms

Table 1: Russian Sanctions and Firm-level Debt

	(1)	(2)	(3)	(4)
Post $\times$ Russia	-0.519*** (0.117)	0.00836 (0.0192)	-0.260 (0.182)	0.0188 (0.144)
Post $\times$ Russia $\times$ Sanctioned	0.179 (0.105)	-0.0340* (0.0189)	1.411*** (0.0863)	1.137*** (0.0734)
Estimator	OLS	OLS	OLS	OLS
Dependent Variable	Total Debt	Leverage	Interest Expenses	Debt Burden
Observations	832	832	517	493
R-squared	0.951	0.923	0.886	0.868

Dollar vs Euro/Sanctioned vs Non-sanctioned Firms



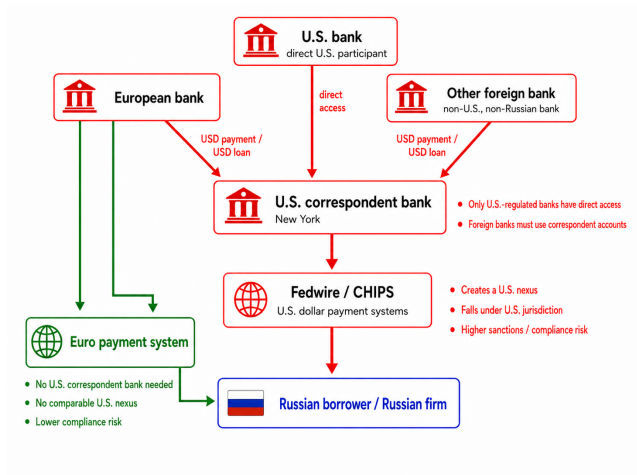
Dollar vs Euro/Sanctioned vs Non-sanctioned Firms

Table 2: Russian Sanctions and Firm-Level Debt Currency Composition

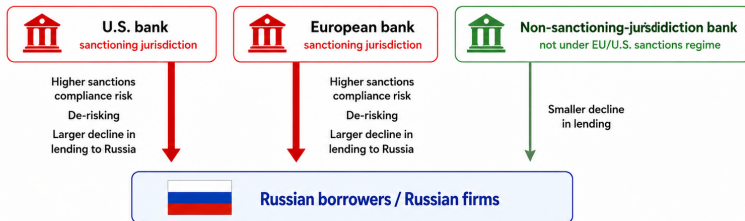
	(1)	(2)	(3)	(4)
Post $\times$ Russia	-0.705*** (0.241)	0.942*** (0.196)	-0.0930 (0.0576)	0.181*** (0.0391)
Post $\times$ Russia $\times$ Sanctioned	-0.213 (0.159)	-0.986*** (0.162)	0.0582* (0.0310)	-0.123*** (0.0371)
Currency	USD	EUR	USD	EUR
Estimator	PPML	PPML	OLS	OLS
Dependent Variable	Total Debt	Total Debt	Currency Share	Currency Share
Observations	852	188	852	202
R-squared	0.895	0.953	0.905	0.895

Dollar vs Euro

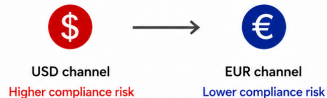
- extra-territorial enforcement: legal jurisdiction in the dollar payment system exposes all dollar transactions to compliance risk



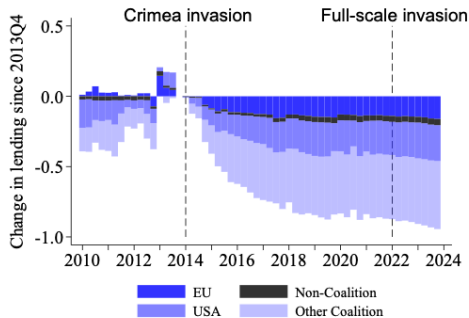
Dollar vs Euro/Coalition vs Non-Coalition



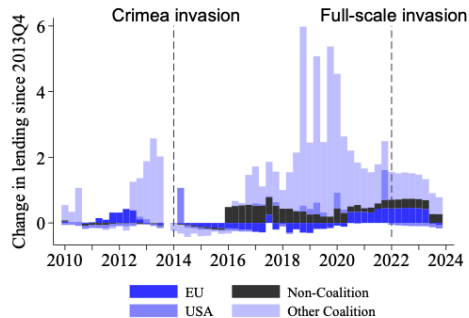
USD → EUR shift



Dollar vs Euro/Coalition vs Non-Coalition



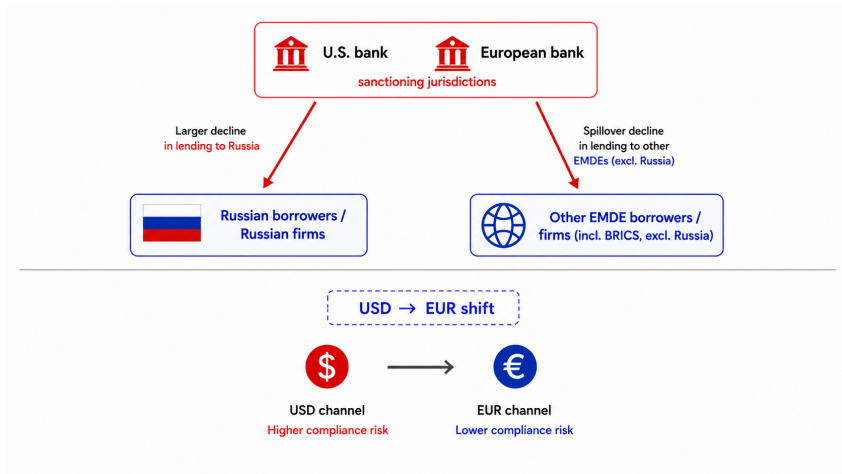
(e) USD by Ultimate Parent Nationality



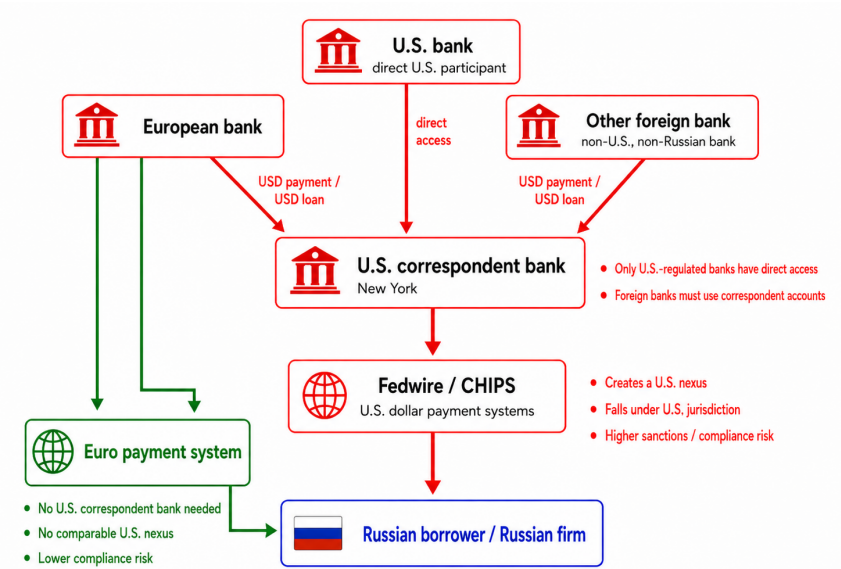
(f) EUR by Ultimate Parent Nationality

- “Other Coalition” includes CAN, CHE, GBR, JPN

Russia vs Other EMDE



Comment: Dollar Settlement



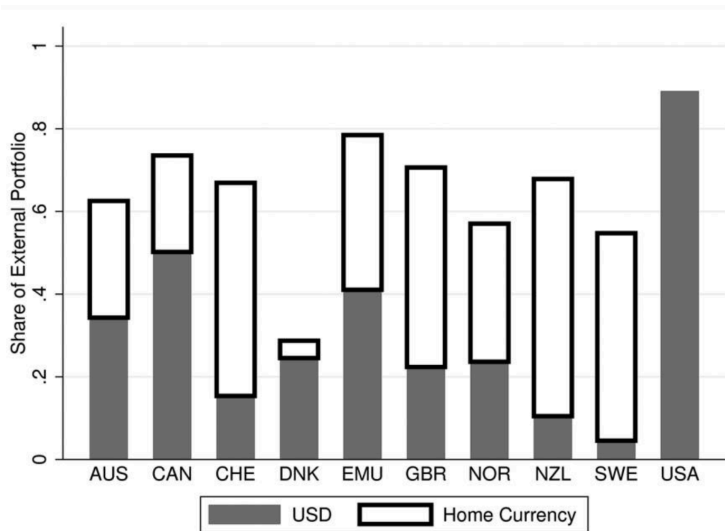
Comment: Dollar Settlement

- Dollar settlement risk should be heterogenous
- “The within-bank shift from dollars to euros is homogenous across jurisdictions, in line with U.S. extra-territorial jurisdiction increasing sanction compliance risk in dollars vs euros for all banks globally US banks”
- “currency-toggle” provisions in cross-border loan contracts:
 - keeping contracts denominated in dollars
 - permitted payment in an alternative currency in case the borrower was prevented access to dollar clearing
- Eurobond issued in 2016 included an “Alternative Payment Currency Event Clause” allowing repayment in euros, pounds sterling, or Swiss francs if dollar payments

Comment: Dollar Settlement

- Why banks suddenly discovered dollar payment risk in 2014?
- For decades, Western payment system infrastructures maintained geopolitical neutrality.
- This neutrality began to shift in 2010. New US legislation extended extraterritorial powers to impose secondary sanctions enabling the exclusion of foreign banks from dollar-based payment systems if they engaged in transactions with sanctioned entities. (CEPR 2025)
- 2014, BNP Paribas Agrees to Plead Guilty and to Pay \$8.9 Billion for Illegally Processing Financial Transactions for Countries Subject to U.S. Economic Sanctions.

Comment: Currency Bias

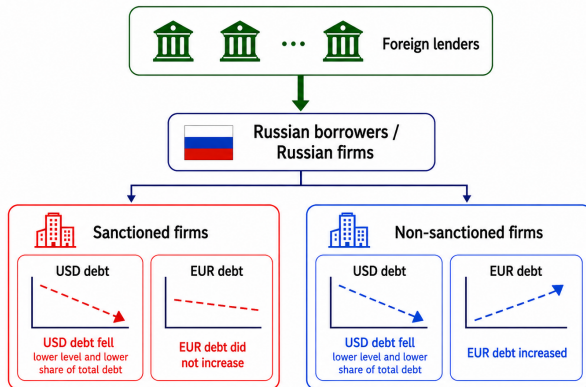


Comment: Currency Bias

- Investors have home currency bias
- European banks may naturally prefer to lend in euros
- Dollar settlement risk can trigger heterogeneous preferences from lenders

Comment: Does sanction work?

- “restricted the ability of a sub-set of systemically important Russian firms to access new financing and therefore to refinance their existing foreign liabilities”
- Indiscriminate attack ?

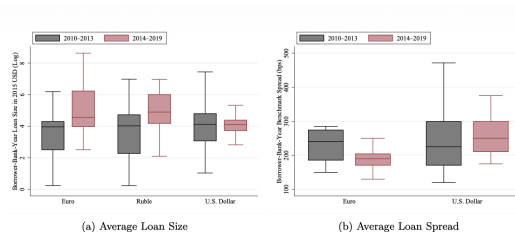


Comment: Does sanction work?

- Why interest do not change/decreases for non-sanctioned? Loan market power

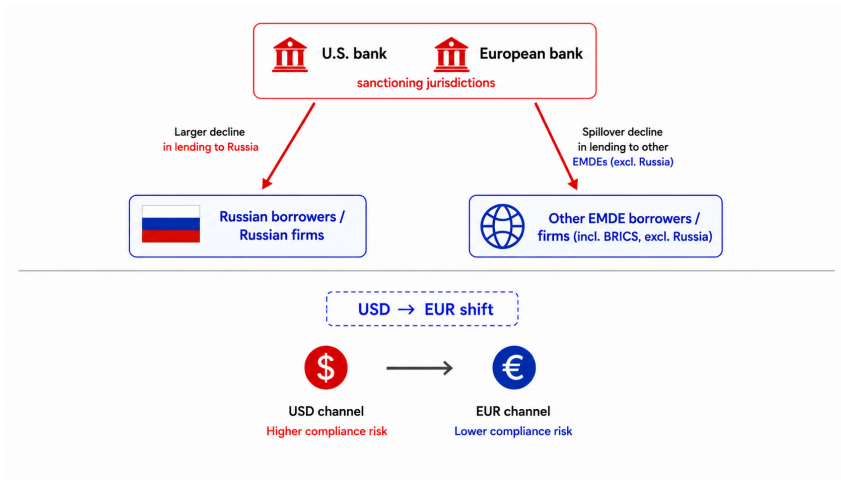
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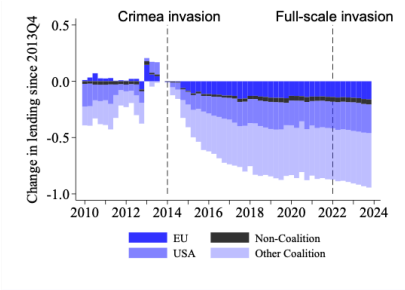


Comment: Does sanction work?

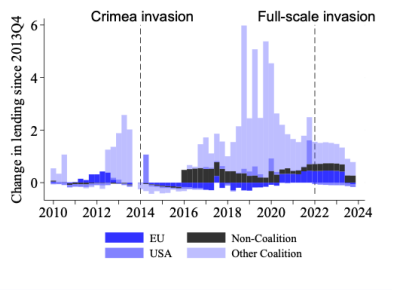
- Indiscriminate attack ?



Comment: Timing



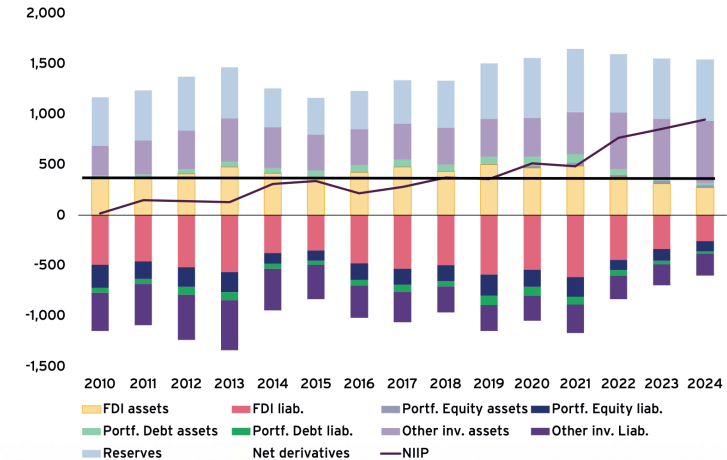
(e) USD by Ultimate Parent Nationality



(f) EUR by Ultimate Parent Nationality

Comment: Asset vs Liability

FIGURE 1.3 RUSSIA'S NIIP, 2010-2024 (US\$ BILLIONS)

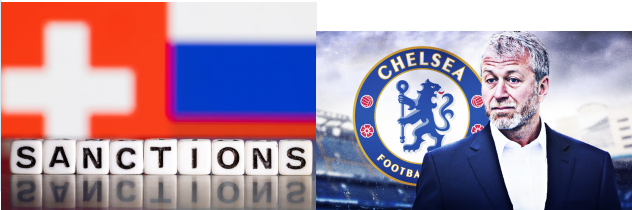


Source: IMF, Balance of Payments Statistics and Central Bank of Russia.

Comment: Asset vs Liability

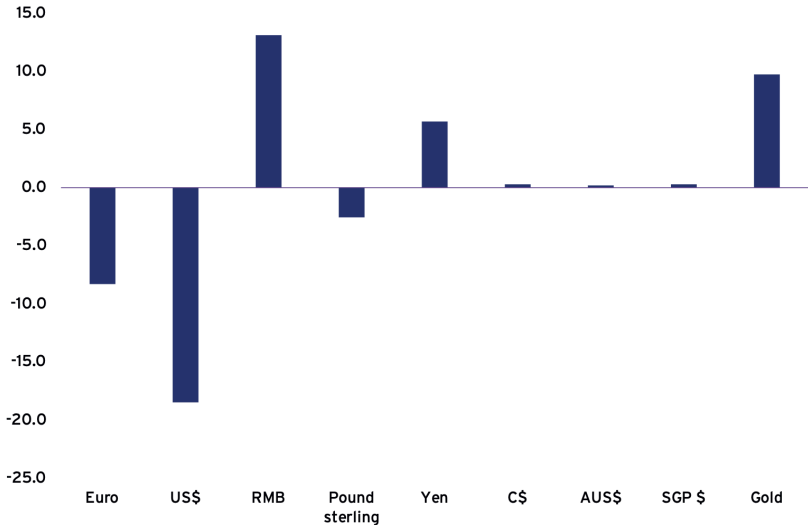


The Economist



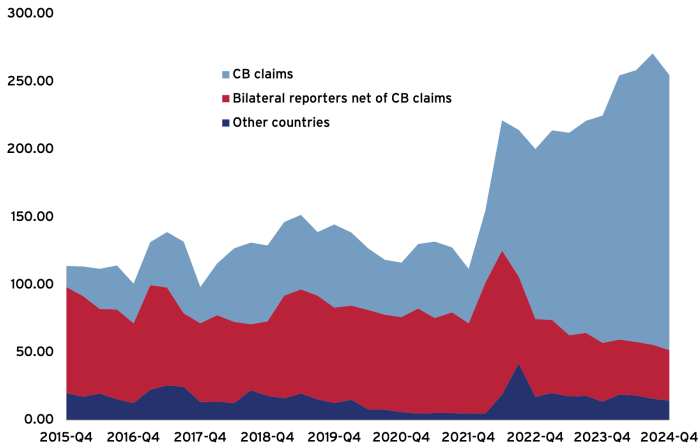
Comment: Asset vs Liability

**FIGURE 1.2 RUSSIAN RESERVES: CHANGE IN CURRENCY SHARES, 2014-21
(PERCENTAGE POINTS)**



Comment: Asset vs Liability

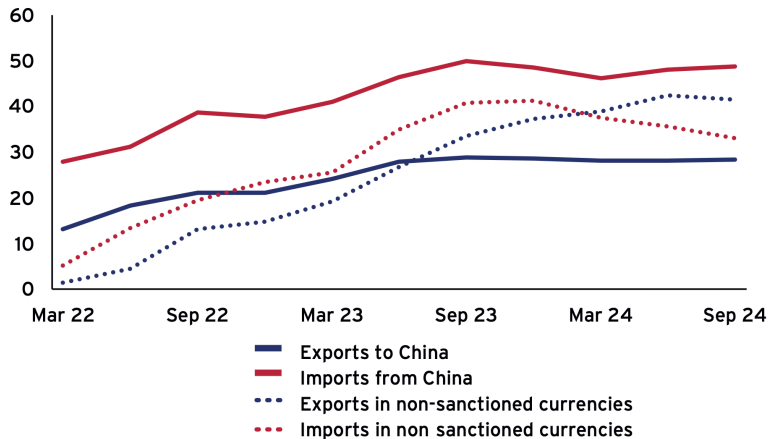
FIGURE 1.4 RUSSIA'S CLAIMS ON BIS-REPORTING BANKS, 2015-24 (US\$ BILLIONS)



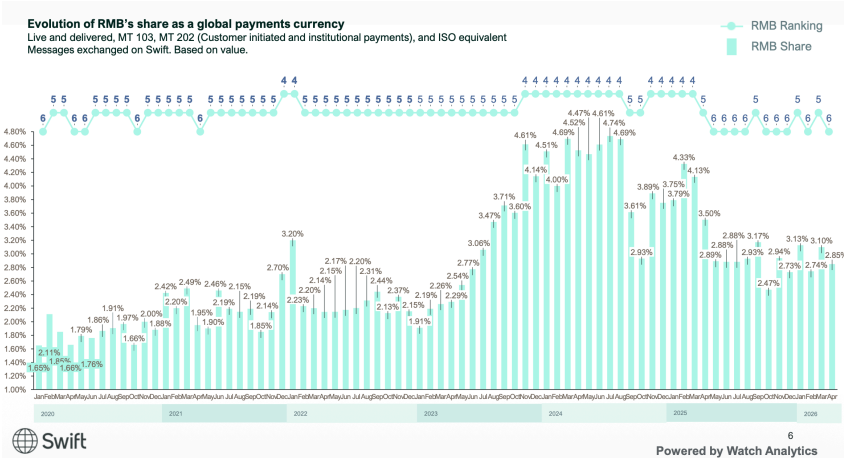
- blue area represents countries that report data to the BIS but do not disclose bilateral positions.

Comment: Payment

FIGURE 3.7 RUSSIA'S TRADE WITH CHINA AND INVOICING IN CURRENCIES OF COUNTRIES NOT SANCTIONING RUSSIA (%)

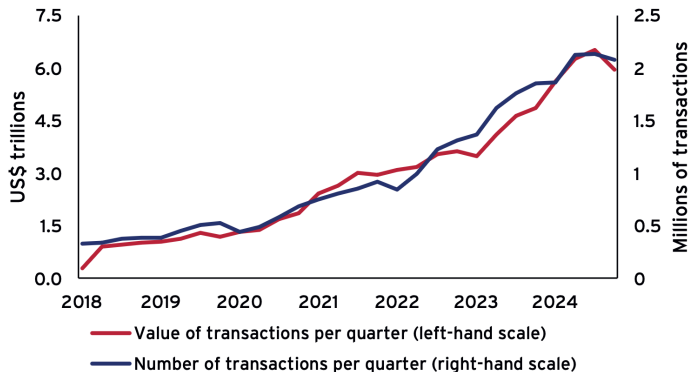


Comment: Payment



Comment: Payment

FIGURE 3.5 ACTIVITY IN CHINA'S CROSS-BORDER INTERBANK PAYMENT SYSTEM



Notes: The figure shows the evolution of activity in CIPS including the number of transactions in millions and the value of the transactions in question in USD trillions.

Source: People's Bank of China and authors' calculations.

World Piece

