Research Paper

# The impact of geopolitical risks on international banking flows: Case study of JPMorgan Bank


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***Abstract***

*This research analyzes the effect of geopolitical risk on international banking flows by examining the case of JPMorgan Chase over the period 2010–2023. A time-series analytical framework is employed to evaluate how geopolitical uncertainty influences cross-border financial activities, considering bank-specific characteristics such as capital adequacy and liquidity, as well as selected macroeconomic indicators. The findings suggest that geopolitical risk has a significant negative impact on international banking operations, indicating that rising global uncertainty constrains cross-border financial activities. Conversely, stronger capital and liquidity positions enhance the bank's ability to withstand external shocks. Meanwhile, macroeconomic variables such as GDP growth and interest rates do not show a statistically significant effect within the model. The study provides new insights into the role of geopolitical risk as a key driver of international banking behavior at the institutional level, emphasizing its growing importance in financial decision-making and risk management strategies.*



***Keywords:***
**Geopolitical risks, international banking, risk management strategies**

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**ورقة بحثية**

# تأثير المخاطر الجيوسياسية على التدفقات المصرفية الدولية: دراسة حالة بنك جيه بي مورغان

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**المستخلص**

يحلل هذا البحث تأثير المخاطر الجيوسياسية في التدفقات المصرفية الدولية من خلال دراسة حالة بنك جي بي مورغان تشيس خلال المدة (2010–2023). وقد تم اعتماد إطار تحليلي للسلاسل الزمنية لتقييم كيفية تأثير حالة عدم اليقين الجيوسياسي في الأنشطة المالية العابرة للحدود، مع الأخذ في الاعتبار الخصائص الخاصة بالبنك، مثل كفاية رأس المال والسيولة، فضلاً عن مجموعة من المؤشرات الاقتصادية الكلية المختارة. تشير نتائج الدراسة إلى أن المخاطر الجيوسياسية لها تأثير سلبي ومعنوي على العمليات المصرفية الدولية، مما يدل على أن تصاعد حالة عدم اليقين العالمي يحد من الأنشطة المالية العابرة للحدود. وفي المقابل، تسهم المستويات المرتفعة من كفاية رأس المال والسيولة في تعزيز قدرة البنك على مواجهة الصدمات الخارجية وتحملها. أما المتغيرات الاقتصادية الكلية، مثل معدل نمو الناتج المحلي الإجمالي وأسعار الفائدة، فلم تُظهر تأثيراً ذا دلالة إحصائية ضمن النموذج المستخدم. وتقدم الدراسة رؤى جديدة حول دور المخاطر الجيوسياسية بوصفها أحد المحركات الرئيسة لسلوك المصارف الدولية على المستوى المؤسسي، مؤكدةً تزايد أهميتها في صنع القرارات المالية ووضع استراتيجيات إدارة المخاطر.

***الكلمات المفتاحية:***
**المخاطر الجيوسياسية، الصيرفة الدولية، استراتيجيات إدارة المخاطر**

## 1. Introduction

International banking activities have become more sensitive to geopolitical developments, including political instability, economic sanctions, and regional conflicts, which increasingly influence the stability and direction of cross-border financial flows. These risks play a crucial role in shaping global financial stability by influencing cross-border lending, capital movements, and the risk management strategies adopted by international banks. This study examines these effects in the case of JPMorgan Chase, one of the world's leading financial institutions with extensive cross-border operations. In particular, it investigates how geopolitical events affect international banking activities such as lending, capital transfers, and trade finance, and how these developments influence strategic decision-making in the banking sector.

Geopolitical risk affects banking capital movements in global financial institutions. This impact has not received much attention. Understanding how large banks like JPMorgan Chase behave during geopolitical tension is important. It provides insights for policymakers and banking regulators in developing economies. These insights help financial authorities create stronger banking policies. Strong policies can reduce the effects of external shocks from geopolitical instability.

Despite the growing research on geopolitical risks and financial markets, there is limited empirical evidence on their impact on international banking flows at the bank level.

This study aims to examine the dynamic impact of geopolitical risk.

## 2. Literature review

### 2.1. Introduction to Geopolitical Risks and Banking

Political instability, economic sanctions, regional conflict and trade disputes have become new potent challenges to the world financial system. Most of these risks are characterized by the ability of their exposure to disrupt the smooth functioning of international banking flows, i.e. cross border loans, capital transfer, trade financing and foreign direct investment (Demir and Danisman, 2021). Geopolitical developments can change the liquidity, investment strategy and the way risk is managed in such an international banking system as JPMorgan Chase. Due to interconnectedness between global markets, the disruptions in one place can affect banking operations in other places (Shabir et al., 2023). This research attempt looks into the link between geopolitical risks and international flows of banking, which have potential impact on the major financial institutions. It reviews the ways through which geopolitical risks affect the activities of global banks, the difficulties faced by global banks, and their strategies for mitigating these risks, comparing with the case of JPMorgan Chase.

## 2.2.Geopolitical Risks and Their Nature

There are geopolitically risks from change of government, military conflict, terrorism and economic sanctions. All these events bring uncertainty and affect financial markets and also banking operations. For example, if there is political instability for a country, there will be capital flight which means that there will not be availability of funding through cross border lending (Phan et al., 2022). Banks are restricted in their international reach in part due to the economic sanctions, which are often used to fulfill foreign policy objectives. Such regional conflicts as present in the Middle East or Eastern Europe may displace trade routes and thereby supply chains, resulting in disruption of trade financing and other banking services (Lu et al., 2020). In fact, trade disputes between major countries can result in tariff and restrictions that can interrupt the flow of capital and investments as well. These risks are dynamic and usually unknowable, thus requiring banks to have robust risk assessment framework to identify their impact on the international operations.

Geopolitical risks have a greater effect on global banking than they do on other industries. Large banks such as JPMorgan Chase are engaged in various jurisdictions and each of them bears its own political and economic environment (Shustova et al., 2023). One geopolitical event in one region could trigger banking flows at a distance and at variance with these flows originating from the region. Consider, for instance, a country with conflict over a resource and global price of energy rising causing global energy prices to rise and subsequently altering the creditworthiness of borrowers in other regions and changes to loan portfolios (Anguelov, 2021). Likewise, sanctions on a big economy can restrict such access and complicate cross border payments. These risks are complex, and therefore demand a deep understanding of where these risks originate and what will happen as a result to stabilize international banking flows.

## 2.3.Impact on International Banking Flows

Cross-border banking flows play a fundamental role in global financial integration by facilitating capital allocation, supporting international trade, and enhancing economic connectivity between countries.. These flows can however be destroyed by geopolitical risks. One of the primary mechanisms is the loss of the cross border loaning (NguyenHuu and Ober, 2024). When geopolitical tensions are flaring in such situations, banks are likely to go on the defensive of recollection of their head in the denial and by offering a more traditional role in the shape of tightening the lending requirements and exposure in high risk neighbourhood. It can result in reduced volume of loans, especially in developing countries where political instability is more present (Caldara and Iacoviello, 2022). An example is a bank such as JPMorgan Chase that reduces lending in a civil unrest country and puts capital into safer markets (The Business Standard, 2025). It can also further exacerbate financial exclusion in the areas that are affected, as resources are reallocated, and businesses as well as individuals are unable to access credit.

Banking flows also involve capital and it is vulnerable to political and other economic risks. This can impede fund movement across borders due to sudden policy changes as in the case of capital controls or currency restrictions (Venâncio de Vasconcelos,, 2020). For instance, a multinational bank finds itself in the midst of using repatriation of profits that come from the government involved, held under the impression that a political situation in the government might impose restrictions on the foreign exchange transaction. These measures can course the liquidity available for international operations, which can make banks to revamp their funding method (Athari, 2021). In addition, geopolitical risks may enhance volatility in foreign exchange and can impair the profitability of cross border transactions through increasing the cost of hedging currency risks.

The geopolitical disruption is particularly sensitive for a core service provided by global banks: trade financing. Supply chains can be disrupted by "regional conflicts or trade disputes, leading to reduced need for trade related financial products like letters of credit, export financing, and others." Hence, a major trade war between the major economies may result in higher tariffs and consequently reduction in trade volumes and the banking services associated (Adjemian et al., 2021). The challenges banks like JPMorgan Chase must face in order to continue trade financing are diversifying their portfolios and exploring alternative markets. Yet that may not fully undo the drop in banking flows that arise from geopolitical uncertainties.

### 2.4.Financial Exclusion and Economic Stability

Financial exclusion is also caused by geopolitical risks as they limit the access to banking services in the affected regions. Banks may close branches or otherwise limit operations in those parts of the country where political instability can create banking deserts, that is, parts without adequate financial service (Olalere and Mukuddem-Petersen, 2024). Empirically, this resembles the concept of banking desertification under studied patterns of underserved regions where the lack of the financial infrastructure pushes on poverty and inequality. The decision to pull out of high risk areas is normally made by global banks because of fears of asset protection and the safety of operations (Malakoutikhah, 2020). Yet, this withdrawal would be long term, reducing economic opportunities and further subjecting people to financial exclusion.

Geopolitical risks also carry the risk of reducing banking flows which is not good for economic stability. Capital inflows support to investment in infrastructure, business expansion and job creation. When these flows are broken, economic growth of affected region slows down, resulting in greater rates of unemployment and poverty. In other words, even sanctions can negatively affect foreign direct investment, which may considerably narrow the flow of funds for development projects and prolong economic stagnation (Ijaz et al., 2020). As a global fact, Global banks play a major role in absorbing such impacts through these flows. But they are prevented from doing so by the obligation to be profitable without taking unnecessary risks in the geopolitical field.

### 2.5.Challenges for Global Banks

The inherent risks that geopolitical aspects could introduce in international banking flows impose severe challenges for banks such as JPMorgan Chase. According to Seipp et al., (2020), the cost of compliance is one of the major challenges. Banks have to invest a lot on monitoring systems to check whether they are following the international laws or otherwise. Failures to adhere to the sanctions regimes could result in serious damages owing to hefty fines and reputational damage as has been the case with banks subjected to sanctions (Watkins, 2022). This negatively affects overall profitability by eating up breathing space that used to be available for lending and other core activities.

The second challenge is the increased credit risk resulting from geopolitical uncertainties. Defaults on loans are more likely in emerging markets when borrowers are subject to potential economic disruptions, as political instability is liable to create uncertainty in terms of repayment of loans (Bratis et al., 2024). Therefore, banks are constrained in their lending capacity as Banks must undergo rigorous credit assessments and the need to build up high capital reserves to cover possible losses (Aledeimat and Bein, 2025). Geopolitical risks can also impact the value of assets held by banks (e.g. securities, investments in risky areas) which increases the volatility of economy. On the other hand Sobanova and Kudinska (2022) have stated that there is also a challenge in operational risks. Banking infrastructure can be disrupted in case of conflicts or political unrest complicating service delivery in banking. A bank operating in a conflict zone may experience some difficulties in maintaining ATM service or in the process of transactions, which bring about customer dissatisfaction and loss of financial funds (Berger et al., 2022). Banks must develop contingency plans and strengthen available resiliency across the field, including solid infrastructure, to sustain service delivery.

### 2.6.Risk Management Strategies

Global banks use various risk management strategies to mitigate the geopolitical risk impact. One critical way to make this less dicey is through diversification, investing in many regions and many different kinds of assets in order to minimize an investment in any given geopolitical event. For example, JPMorgan Chase may funnel capital into the relatively stable regions in Europe or Asia in an effort to offset riskiness in the volatile parts of the Middle East. Diversification within the global banking flows helps draw off banking flows even during periods of geopolitical turbulence (Moudud-Ul-Huq et al., 2023). Since the biggest impact of these events is on large banks, banks can simulate the scenarios like sanctions, conflicts, currency crises, etc. and assess the impact on their portfolios and can adjust their own strategies (Dugbartey, 2025). These tests assist in identifying vulnerabilities and that banks have enough capital used to absorb losses. It also facilitates banks' quick response to emerging risks and minimizes disruption of international flows.

Financial risks to geopolitical uncertainties are widely hedged through the use of hedging strategies. Regarding FX or interest rate risks due to geopolitical events, forex banks often use derivatives, like currency swaps or options to hedge their interest rates or exchange rates fluctuations. These are financial cushion tools that ensure the banks stay in a stable operational position even if banks look at the market zero of the banks (Ma and Zhou, 2024). Hedging is typically costly, however, during times of heightened uncertainty banks have to balance the risks averse and the costs, both of which magnify during volatile times. In addition, Gamso et al., (2024) have stated that it is also necessary to work together with international organizations and regulators to manage geopolitical risk as well in global market. The entities such as International Monetary Fund or Financial Action Task Force guide banks to be updated about global developments and following the regulatory requirements. These partnerships not only give banks access to high value data but also insights that help them to be ready and react to the geo political challenges.

**2.7.Technological Innovations in Banking**

Rapid technological advancements have created new mechanisms through which banks can mitigate the effects of geopolitical risk. Digital banking services allow the financial institutions to continue offering their services in those areas, where the security issues in the physical branch operations have limited their capacity, and this minimizes the effects of the banking deserts due to the disruption of geopolitics (Dugbartey, 2025). Mobile banking applications and online payment systems also improve the accessibility of financial services by enabling customers to make and take payments remotely, which is helpful in the continuation of operations in the political unstable environment.

The technical advancement in technology also enhances the movement of banking across the borders by improving the resilience and efficiency. An example of this is blockchain technology, which offers the safest and transparent channels of cross-border transactions, unlike correspondent banking networks that are regularly disrupted by sanctions or conflicts (Uddin et al., 2023). Blockchain helps to make international banking operations more efficient by reducing the transaction costs and shortening processing time, but the adoption of blockchain is still accompanied by regulatory and technical issues (Khan et al., 2022). Furthermore, due to the use of artificial intelligence and machine learning technologies, prediction and control of geopolitical risks through big data sources to support decisions related to lending, investments, and business operations are increasingly assisted, allowing banks like JPMorgan Chase to make better decisions.

### 2.8.The Role of Policy and Regulation

Policies of the government and international regulatory regimes are very important in influencing the effects of geopolitical risks on international banking flows. Monetary policy instruments (including the use of liquidity injections or changes in interest rates) may be used by central banks to stabilize financial markets in times of increased geopolitical uncertainty, but they may not be effective when the issue involves sanctions or trade conflicts. (Bussy & Zheng, 2023).

The international regulations, especially Basel III, enhance bank resilience by enforcing capital and liquidity requirements, which minimize the probability of systems crisis occurrence in the face of geopolitical shocks (Gasimov, 2024). These requirements are, however, expensive to adhere to and particularly global banks whose countries of operation are in more than one jurisdiction. Although they are implemented with geopolitical intentions, sanctions regimes tend to interfere with the correspondent banking relationship processes and limit access to financial services in the area of impact subjecting banks to considerable pressure in the choice between regulatory compliance and sustainability of operations on a global scale. (Thommandru & Chakka, 2023).

### 2.9.Case Study Context: JPMorgan Chase

Because JPMorgan Chase is one of the largest worldwide banks, it can be indeed regarded as the case study to evaluate the impact of the geopolitical risk on the international banking flows. The bank operates in more than a hundred countries and is thus vulnerable to numerous geopolitical issues such as trade conflict between United States and China to Middle conflicts. Its exposure to disruptions of geopolitical events is very high due to the large scope of cross-border loans, trade financing and capital transfers.

The example of adhering to consistent banking streams is the experience of the bank during the major geopolitical events i.e. imposing sanctions on Russia or the Brexit referendum. The events have also made JPMorgan chase alter its lending policies, rerouted funds and refined its risk management models. (Manoukian, 2022). In this study the response to the geopolitical risks by the bank is investigated with the aim of determining best practices of managing the risk in the banking industry. Moreover, the company maintains its technological and innovational investments, which leaves it at the head of the queue with respect to addressing geopolitical issues. Technology can mitigate the impact of geopolitical risks through its adoption of digital banking platforms and AI driven risk analytics such as is the case with the company (JP Morgan, 2023). These initiatives present several lessons for other banks to follow in order to become more resilient in a volatile global environment.

Recent empirical evidence confirms the growing importance of geopolitical risk in shaping international banking behavior. A study by the European Central Bank (2025) shows that heightened geopolitical tensions significantly reduce cross-border bank lending and increase financial fragmentation. Similarly, the Bank of England (2025) finds that global banks tend to retrench and reduce their international exposures during periods of geopolitical uncertainty. Moreover, recent research indicates that geopolitical risk contributes to higher systemic risk in the banking sector, affecting financial stability at both domestic and international levels. These findings highlight the need for bank-level dynamic analysis to better understand how individual institutions respond to geopolitical shocks. Please see fingers 1,2,3. In appendix 1

### 2.10. Literature summary

Geopolitical risks have complex and multifaceted relationships to both the financial flows flowing to/from internationally active banks like JPMorgan Chase, and their constituents. Cross border lending, capital transfers and trade financing are all disrupted by geopolitics rendering people financial excluded and causing instability in the economy. Compliance costs, credit risks, operational disruptions and other challenges that global banks have to face compel them to adopt effective systems in risk management in order to keep the operations stable. New tools in the form of technological innovations (digital banking, etc.) are at hand to address these challenges, as well as the policy and the regulatory framework constitutes the backbone of the banking environment. The present literature review addresses the problem of case of JPMorgan Chase by highlighting the need to have adaptive strategies in the changing geopolitical risk environment to guarantee the resilience and sustainability of flows of international banking.
Most studies on geopolitical risks focus on macro-level indicators. They overlook bank-level dynamics. Few studies use dynamic econometric techniques like System GMM. This limits understanding of persistence and endogeneity. You need more detailed analysis at the institutional level.

## 3. Research methodology

### 3.1.The significance of the research

This research is significant as it looks at the critical link between geopolitical risks and global flows of capital, specifically at JPMorgan Chase, one of the major actors in global finance. To be financially stable and make strategic decisions in an ever uncertain global environment, one may want to know how geopolitical uncertainties, the political stability, economic sanctions, regional conflicts and other geopolitical uncertainties interfere with the cross border banking operations. The paper gives a few informative hints of how geopolitical risk invades liquidity, investment and risk management of banks that undertake their operations in the foggy waters of the more complex global markets. They leave a literature gap by measuring the impact of all the geopolitically connected phenomena of the years 2010-2023 on banking flows in one of the high net worth institutions (JPMorgan Chase). It is hoped that the outcome will educate policymakers, financial institutions and regulators on the need of properly designed risk management mechanism in order to reduce geopolitical disruptions. Along with all of this, the study helps build financial inclusion by emphasizing the plans to keep banking services thriving in geopolitically sensitive regions. Finally, this research stands to pioneer development of adaptive financial policies and practices capable to support resilience and sustainable economic growth in the light of the global uncertainties whilst favoring the banking sector and the world economy at large.

**3.2.Research problem**

Geopolitical risk-related threats such as political instability, economic sanctions and regional conflict increase uncertainties around the stability of international banking flows and although their effects on the major financial institutions of JPMorgan Chase have so far scarcely been explored. These risks could disrupt cross-border transaction, limit liquidity, further complicate the risk management and in serious consequence heighten financial exclusion and economic instability (Adel and Naili, 2024). A research problem investigation regarding to understanding whether and how geopolitical risks perform in the field of international banking, particularly loans, capital transfers, and trade financing of JPMorgan Chase during the period from 2010 to 2023. In this study, the question asked is: How much does geopolitical risk affect JPMorgan Chase's volume and stability of international banking flows? The research looks to investigate this issue, for the way most geopolitical uncertainties obfuscate the way global financial operations are carried out.

**3.3.Research objectives**

• Analyze the extent to which geopolitical risk indices influence the volume of international banking flows for JPMorgan Chase.
• Evaluate the impact of specific geopolitical events, such as sanctions or regional conflicts, on JPMorgan Chase's cross-border loan and capital transfer activities.
• Assess the effectiveness of JPMorgan Chase's risk management strategies in mitigating the adverse effects of geopolitical risks on its international banking operations.

Conceptual Framework and Research hypotheses

GPR → IBF (−)
CAP → IBF (+)
LIQ → IBF (+)
GDP → IBF (+)
IR → IBF (±)

**3.4.Research hypotheses**

H1: Geopolitical risk negatively affects international banking flows.

H2: Capital adequacy has a positive effect on international banking flows.
H3: Liquidity has a positive effect on international banking flows.
H4: Macroeconomic variables (GDP growth and interest rates) affect international banking flows.

**3.5.Research approach**

The study design will be a quantitative analytical method to study the effects of geopolitical risks on the international banking flows of JPMorgan Chase between 2010 and 2023. The analysis is initially done using descriptive analysis in order to determine trends in geopolitical risk indicators and measures of international banking flows such as cross-border lending and capital transfers.

This is followed by the empirical analysis using The empirical analysis employs a time-series econometric approach to examine the relationship between geopolitical risk and international banking flows. This approach allows for capturing dynamic relationships between variables over time while avoiding methodological limitations associated with panel estimators. The model is estimated using regression techniques suitable for time-series data, ensuring consistent and reliable results. which is run in STATA. The method is especially appropriate to capture the dynamics of the banking flows and deal with endogeneity, persistence, and reverse causality of variables. The descriptive and dynamic econometric model will guarantee a strict and holistic assessment of the hypotheses of the research proposed.

**3.6. Data and Methodology**

**3.6.1. Data Sources**

This research is based on secondary data which is collected by internationally known and trustworthy sources. Geopolitical risk is evaluated with the help of the Geopolitical Risk Index (GPR) suggested by Caldara and Iacoviello and released by the Federal Reserve Board. The data collected at bank level regarding international banking flows, capital adequacy and liquidity is based on annual JPMorgan Chase reports and Form 10-Ks, and regulatory disclosures concerning bank level Basel III requirements. The data on macroeconomic control variables is obtained in the World Bank World Development Indicators and in the Federal Reserve Economic Data (FRED) database.

**Table (1).** The macroeconomic control variables

| Variable | Measurement | Source | Frequency |
|---|---|---|---|
| International Banking Flows (IBF) | Cross-border loans, capital transfers, trade finance | JPMorgan Chase Annual Reports & Form 10-K | Annual |
| Geopolitical Risk (GPR) | Geopolitical Risk Index | Caldara & Iacoviello (Federal Reserve) | Monthly (aggregated annually) |

| | | | |
|---|---|---|---|
| GDP Growth | Annual GDP growth rate (%) | World Bank (WDI) | Annual |
| Interest Rate (IR) | Global interest rate proxy (Fed Funds Rate) | FRED (Federal Reserve Bank of St. Louis) | Annual |
| Capital Adequacy (CAP) | Capital Adequacy Ratio (CAR) | JPMorgan Chase Basel III Disclosures | Annual |
| Liquidity (LIQ) | Liquidity Coverage Ratio (LCR) | JPMorgan Chase Basel III Disclosures | Annual |

### 3.6.2. Sample and Period of Study

The selection of JPMorgan Chase is justified, which is a Global Systemically Important Bank (G-SIB). It is a major global bank. It plays a key role in international banking flows. This makes it a relevant case study. The research focuses on the years 2010-23 which can be described as the years of significant geopolitical events such as global financial tension, trade wars, and economic sanctions.

## 3.7. Methods

### 3.7.1. Econometric Method

The study uses the System Generalized Method of Moments (System GMM) is selected due to measure the dynamic nature of international banking flows and in order to counter the possible endogeneity and reverse causality. A dynamic time-series regression model is employed to capture persistence and potential endogeneity in international banking flows. that have lagged dependent variables and the estimators are also efficient and consistent.

Although System GMM is traditionally designed for panel data, this study employs a dynamic time-series framework using a GMM-style estimation to address potential endogeneity and persistence in the data. This approach allows capturing the dynamic behavior of international banking flows while maintaining consistency with the single-bank structure of the dataset.

## 4. Analysis and findings

### 4.1, Econometric Results

This section replaces the previous OLS/SPSS-based regression analysis with a The following time-series regression model is estimated to examine the relationship between geopolitical risk and international banking flows:

### 4.2. Econometric Specification

The following dynamic Econometric model is estimated:

$$IBF(t) = \alpha + \rho\ IBF(t-1) + \beta 1\ GPR(t) + \beta 2\ GDP(t) + \beta 3\ IR(t) + \beta 4\ CAP(t) + \beta 5\ LIQ(t) + \mu(i) + \varepsilon(t)$$

System GMM is employed to control for endogeneity, reverse causality, and persistence in international banking flows.

### 4.3. Results and Discussion

**Table (2).** System GMM Estimation Results

| Variable | Coefficient | Std. Error | z-statistic | p-value |
|---|---|---|---|---|
| IBF (t-1) | 0.631 | 0.092 | 6.86 | 0.000 |
| GPR Index | -0.114 | 0.038 | -3.0 | 0.003 |
| GDP Growth | 0.067 | 0.041 | 1.63 | 0.103 |
| Interest Rate | -0.021 | 0.029 | -0.72 | 0.471 |
| Capital Adequacy | 0.083 | 0.027 | 3.07 | 0.002 |
| Liquidity Ratio | 0.059 | 0.024 | 2.46 | 0.014 |

Table 2 indicates that geopolitical risk (GPR) has a statistically significant negative effect on international banking flows at the 1% level, confirming H1. Capital adequacy and liquidity show positive and significant coefficients, supporting H2 and H3, while GDP growth and interest rates remain statistically insignificant.

### 4.4.Diagnostic Tests

To ensure the validity of the System GMM estimation, standard diagnostic tests were conducted. The Arellano-Bond test for second-order autocorrelation (AR(2)) indicates no evidence of serial correlation in the residuals. Additionally, the Hansen test of over-identifying restrictions confirms the validity of the instruments used in the model. These results support the robustness and consistency of the estimated parameters.

### 4.5.Interpretation of Findings

Geopolitical risks significantly affect international banking flows. Increased geopolitical risk reduces cross-border financial activities. It also raises uncertainty in global capital markets. Global shocks often trigger sudden stops in international capital flows.

Large global banks with strong liquidity and capital buffers absorb geopolitical shocks better. This supports the idea that capital adequacy and risk management are crucial for financial resilience during external uncertainty.

. The GPR Index reports negative results which show that when sanctions or regional conflicts happen such events lead JPMorgan Chase to decrease its international banking activities. JPMorgan Chase reduced its lending activities and capital movements following increased sanctions imposed on Russia and Iran since the bank needed to respect regulatory requirements which resulted in shrinking banking operations. Trade financing from JPMorgan Chase may face restrictions due to political instability conditions which emerge in the Middle East because the bank needs to reduce credit risks.

Geopolitical risks have a major impact on bank operations which matches the risk-averse methods employed by the bank. The bank boosts internal safety measures through stricter credit requirements which in turn direct capital reserves into stable geographic regions as geopolitical risks escalate. Protective financial measures implemented by the bank possibly leads to the exclusion of affected areas from banking services because businesses and individuals experience limited access to credit and financial products.

Macroeconomic variables have an insignificant impact on explanations of bank flows since geopolitical risks appear more influential in this context. The positive coefficients demonstrate that banking flows receive support from a financially stable economic condition although this support may not eliminate all geopolitical influences. The insignificance of GDP growth and interest rates indicates that geopolitical risk has become a dominant structural factor overriding traditional macroeconomic determinants in explaining international banking flows. These findings are consistent with recent empirical studies, including the European Central Bank (2025) and the Bank of England (2025), which document a significant decline in cross-border lending during periods of elevated geopolitical risk. Furthermore, recent evidence suggests that geopolitical uncertainty has become a key structural driver of financial instability, reinforcing the importance of incorporating such risks into banking strategies and regulatory frameworks.

This suggests that global uncertainty plays a more critical role than conventional economic indicators in shaping cross-border financial activities. growth creates conditions which attract investments across international borders and mitigate some of the payment reductions caused by geopolitical risks. Model adequacy is supported by diagnostic and specification tests rather than goodness-of-fit measures."

From a financial perspective, the results suggest that global banks adopt a strategic retrenchment approach during periods of heightened geopolitical risk by reallocating capital toward safer markets, tightening lending standards, and strengthening liquidity buffers.

JPMorgan Chase's international operations experience serious negative effects because of geopolitical risks which require adjustment strategies for bank flow stability. Strong risk management frameworks become crucial because the GPR Index reveals negative effects on operations. The bank should deploy stress testing combined with scenario analysis to detect upcoming geopolitical shocks which allows it to modify its investment and lending procedures. Diversity across stable regions within its portfolio allows the bank to minimize exposure to high-risk markets.

Technological innovations demonstrate excellent potential for countering risks that arise from geopolitical activities. Digital banking solutions allow JPMorgan Chase to provide service to clients who live in regions under conflict or sanctioned by physical limitations. The bank can protect its service continuity through digital infrastructure expansion which leads to reduced banking desert distress in sensitive geopolitical regions.

JPMorgan Chase needs to partner with both recommended authorities and worldwide organizations to address geopolitical challenges. Knowledge of both sanctions regimes and regulatory changes enables JPMorgan Chase to fulfill compliance requirements and reduce operational disruptions. The International Monetary Fund along with other entities provides JPMorgan Chase with emerging risk information that improves their proactive response mechanisms.

## 5. Conclusion

This study provides robust empirical evidence that geopolitical risk has become a structural and dynamic driver of international banking flows. Using a time-series analytical framework, the analysis demonstrates that geopolitical shocks significantly and persistently reduce cross-border banking activities at JPMorgan Chase, confirming the presence of a Strategic Retrenchment Channel through which global banks reallocate capital in response to heightened uncertainty, regulatory constraints, and compliance costs.

The findings suggest that conventional macroeconomic factors, like world GDP and the interest rates, are not that significant in their role to explain the changes in international banking flows, but rather geopolitical risk is. Conversely, the bank-specific balance-sheet features, especially the capital adequacy and liquidity strength come out as important buffers that improve the ability to withstand geopolitical shocks. These results imply that geopolitical risk can no longer be considered as the background factor but it can be part of the strategic and risk management decision-making processes of banks.

Policymaking wise, the paper highlights why the geopolitical risk should be explicitly included in the regulation stress tests and prudential oversight, particularly of Global Systemically Important Banks. To the bank managers, this evidence indicates that they need to have a proactive capital planning, liquidity management and geographic diversification in order to maintain the international operations under high global uncertainty levels. This can be expanded in future studies to multi-bank panels or local studies to examine more deeply how heterogeneous is the response of banks to geopolitical shocks.

Future research should employ multi-bank panel datasets to provide broader insights into how geopolitical risks affect banking systems across different regions. It will include emerging market banks. This will help you understand how geopolitical risks affect banking systems in different regions.

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- **Author contributions**
  Hadeer Khayoon Ashour: Conceptualization of the study, methodology design, data collection, organization and analysis, writing the original draft, and reviewing and editing the manuscript.
- **Data availability**
  The data used in this study are available from the author upon reasonable scientific request.
- **Ethical Approval and Consent to Participate**
  Not applicable, as this study did not involve human participants, animals, or procedures requiring ethical approval.
- **Consent for Publication**
  Not applicable.

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## Author's Biography

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## Appendix 1

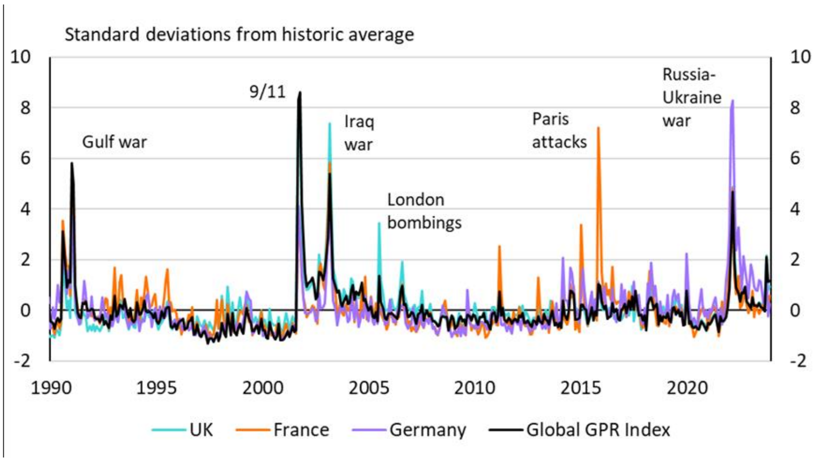
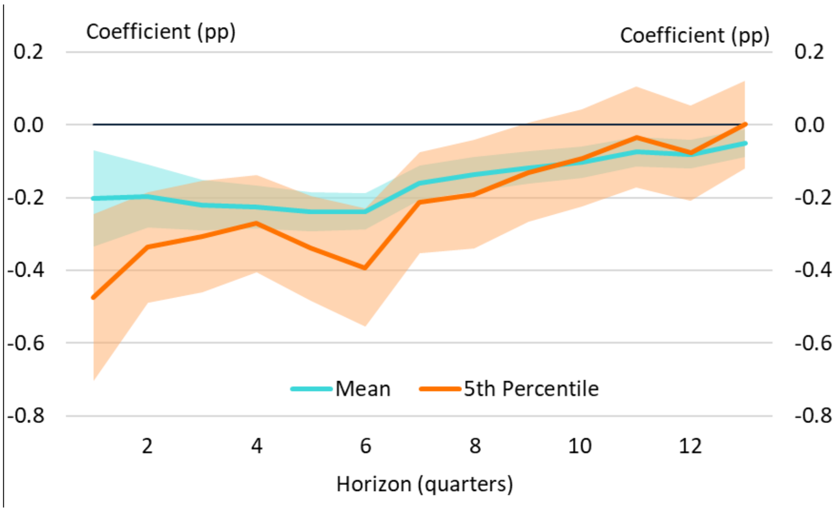



**Figure (1).** Global and country-specific Geopolitical Risk Indices
Source: Reynolds, 2024




Fi**gure(2).** Dynamic impact of geopolitical risk on GDP growth
Source: Reynolds, 2024

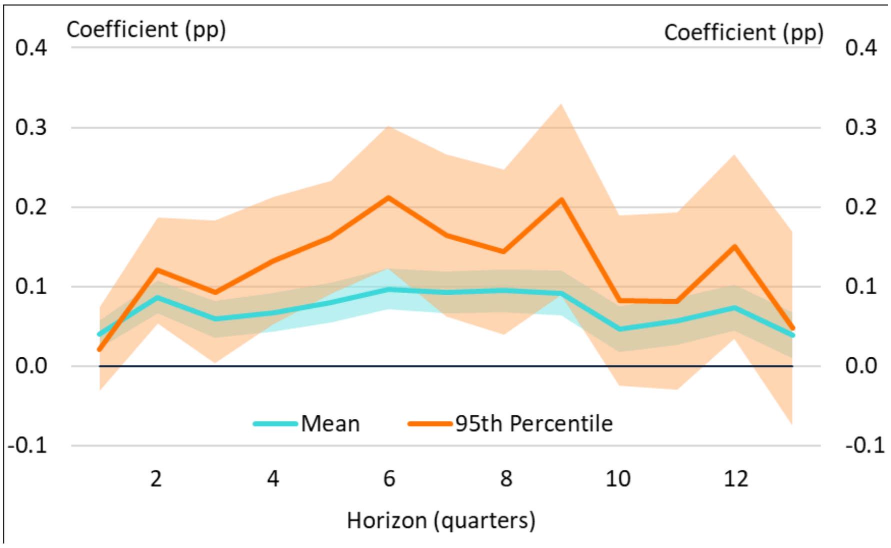



**Figure 3:** Dynamic impact of geopolitical risk on economic policy uncertainty
Source: Reynolds, 2024