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War's Ripple Effect: Regional Banking Dynamics in Times of Conflict - Insights from Ukraine

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Abstract

This paper examines the impact of the full-scale Russian invasion on regional banking activity in Ukraine, focusing on differences among regions directly affected by Russian occupation, those adjacent to the occupied regions, and those never occupied. Using a dynamic difference-in-differences approach with continuous treatments, we find that lending in occupied regions experienced the most severe decline; however, the lending contraction in regions neighboring occupied areas followed a similar pattern to that in the occupied regions, highlighting significant spillover effects. Although deposits grew, lending remained limited after liberation, highlighting ongoing economic stagnation. These findings have crucial implications for post-war recovery policies as they show that war-induced disruptions extend beyond regions directly involved in the war.

Keywords: Banking Activity, Lending, Deposits, War