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EMERGING RISKS, INNOVATION AND REGULATORY DEVELOPMENTS IN INTERNATIONAL BANKING AND FINANCE*

ABSTRACT

This editorial introduces the special issue on emerging risks, innovation and regulatory developments in international banking and finance. The contributions examine how banks operate and adapt in an environment increasingly shaped by geopolitical tensions, energy-market disruptions, climate-related challenges, digitalisation and evolving regulatory frameworks. Across diverse institutional and economic contexts, the eight papers highlight the central role of banks in supporting economic resilience, facilitating adjustment to external shocks and allocating financial resources. The papers are organised around two broad themes: (i) Emerging Risks and Economic Resilience and (ii) Banking, Regulation and Sustainability, illustrating how innovation, sustainability and regulatory change are reshaping banking activities, lending practices and risk management, while identifying promising avenues for future research on resilience and the evolving role of banks.

Keywords: Emerging Risks; International Banking and Finance; Economic Resilience; Financial Innovation; Financial Regulation
JEL Classification: E44; F65; G21; G28; Q54

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RIASSUNTO

Rischi emergenti, innovazione e sviluppi nella regolamentazione bancaria e finanziaria internazionale

Questo editoriale introduce il numero speciale di Economia Internazionale/International Economics sui rischi emergenti, innovazione e sviluppi nella regolamentazione bancaria e finanziaria internazionale. Gli articoli esaminano come le banche operano e si adattano ad un ambiente che è sempre più influenzato da tensioni geopolitiche, perturbazioni del mercato dell'energia, sfide legate al clima, digitalizzazione e quadri regolatori in evoluzione. Attraverso contesti istituzionali ed economici diversi, questi otto contributi evidenziano il ruolo centrale delle banche nel sostenere la resilienza economica, facilitare gli adeguamenti agli shock esterni e allocare risorse finanziarie. La suddivisione dei paper segue due tematiche principali: (i) rischi emergenti e resilienza economica e (ii) settore bancario, regolamentazione e sostenibilità, descrivendo come innovazione, sostenibilità e modifiche normative stanno ridisegnando le attività bancarie, il credito e la gestione del rischio, identificando al contempo promettenti direzioni per ricerche future sulla resilienza e l'evoluzione del ruolo delle banche.

OVERVIEW OF THE SPECIAL ISSUE:

(i) *Emerging Risks and Economic Resilience*

1. Ferri G., Esposito G.F., Pini M. and A.G. Bottoni, Is relationship banking supporting firms' adaptation to an uncertain world?

2. Bandad A., Casu B. and E. Pellini, Economic growth and oil price shocks in an oil-abundant country: the case of Azerbaijan.

3. Chronopoulos D.K., Gül S., Kazdal A., Wilson J.O.S. and M.H. Yılmaz, When global energy costs travel: domestic trade network channel to firm-level inflation expectations.

4. Oncul Oral M., Banti C. and N.M. Kellard, Cryptocurrencies: the role of investor attention.

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(ii) *Banking, Regulation and Sustainability*

5. Chortareas G. and K.I. Linardatos, An operational shadow-rate framework for policy analysis.

6. McKillop D., Sobiech A., Wilson J.O.S. and D. Chronopoulos, Industry consolidation and the performance and stability of Irish Credit Unions.

7. Papadimitri P. and F. Pasiouras, Climate related financial policies and bank value: cross-country evidence.

8. Reghezza A. and E. Seghezza, Environmental performance and syndicated lending.

1. INTRODUCTION

Banks play a central role in the global economy through their involvement in cross-border capital flows, trade finance, investment activities and the transmission of monetary and financial conditions. Over recent decades, rapid financial integration, technological innovation and digitalisation have increased the interconnectedness of banking systems worldwide, creating new opportunities while simultaneously exposing financial institutions and economies to a broader range of risks.

As highlighted in the call for papers for this special issue, emerging challenges such as geopolitical instability, energy market disruptions, climate-related risks, technological change, cybersecurity threats and regulatory fragmentation are increasingly reshaping the banking and financial environment. These developments raise important questions regarding financial stability, the resilience of banking systems and the ability of institutions to adapt to a rapidly changing global landscape.

These challenges have also renewed interest in the effectiveness of regulatory and supervisory frameworks introduced in the aftermath of the 2008-09 Global Financial Crisis. While reforms such as Basel III, the expansion of macroprudential policy frameworks and changes in banking supervision have strengthened many aspects of financial regulation (Borio, Farag and Tarashev, 2020; Mester, 2018), important concerns remain regarding the ability of existing institutions to address new forms of risk and increasing global interconnectedness (Carstens, 2023; Beck,

Bruno and Carletti, 2024; Tarullo, 2019). At the same time, sustainability considerations, technological innovation and evolving market structures continue to reshape banking activity and financial intermediation across jurisdictions.

Against this backdrop, the contributions included in this special issue explore how financial institutions, firms, investors and policymakers navigate an increasingly complex economic and financial environment. They examine the transmission of shocks across economies, the role of banks in fostering resilience, and the challenges arising from regulatory change, sustainability concerns and growing uncertainty. The papers also provide robust evidence on how these forces are transforming banking activities, influencing risk management and financial intermediation, and affecting broader economic outcomes. To reflect these common themes, the papers in this special issue are organised around two broad themes: (i) Emerging Risks and Economic Resilience; and (ii) Banking, Regulation and Sustainability.

2. Emerging risks and economic resilience

The first group of papers examines how geopolitical tensions, commodity-price volatility, inflationary pressures and changing market conditions affect economic resilience. They also highlight the channels through which shocks are transmitted across economies and financial systems, while emphasising the role of banks and regulatory frameworks in fostering resilience and supporting responses to emerging challenges.

Ferri, Esposito, Pini and Bottoni focus on the role of banking in supporting economic resilience. Starting from the concept of the 'polycrisis', the authors show that relationship banking remains a valuable institutional mechanism through which banks help firms navigate uncertainty. By facilitating access to credit while providing advisory support, relationship banks enable firms to adapt to energy shocks, trade disruptions and supply-chain challenges.

Bandad, Casu and Pellini examine the macroeconomic consequences of oil-price volatility in Azerbaijan, a resource-dependent economy highly exposed to external shocks. The authors identify oil prices and government expenditure as key drivers of long-run growth and demonstrate that fiscal channels play a central role in transmitting commodity-price shocks. The study shows the continuing vulnerability of resource-dependent economies and emphasises the importance of economic diversification especially through renewable energy,

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fiscal sustainability and financial sector development in strengthening resilience to external shocks.

Using detailed firm-level evidence from Türkiye, **Chronopoulos, Gül, Kazdal, Wilson and Yilmaz** analyse how global energy-price shocks affect firms' inflation expectations through domestic supply chain networks. Their findings reveal that firms with greater exposure to energy-intensive production structures adjust their expectations more strongly following energy price increases. The study highlights the role of firm heterogeneity and production-network linkages in shaping inflation dynamics and transmitting energy-price shocks across the economy.

The final paper in this section turns to financial markets and investor behaviour. **Oncul Oral, Banti and Kellard** explore the relationship between investor attention and cryptocurrency returns using Google and Wikipedia search activity. Their results suggest that attention remains an important determinant of cryptocurrency market behaviour, although its predictive power has weakened in recent years marked by greater volatility and increased institutional participation. The paper offers valuable insights into information processing and investor behaviour in digital financial markets, illustrating how new forms of financial activity can both reflect and amplify uncertainty.

3. BANKING, REGULATION AND SUSTAINABILITY

While the papers in the previous section focus on the sources and transmission of risk, the contributions discussed here examine how banks, policymakers and regulatory frameworks respond to these challenges in an increasingly interconnected international environment. The studies highlight the growing importance of regulation, institutional resilience and sustainability considerations in strengthening financial systems.

Chortareas and Linardatos develop a framework for the use of shadow rates in assessing monetary policy during periods when policy rates are constrained by the effective lower bound. Comparing alternative modelling approaches, the authors show that shadow rates provide useful summaries of unconventional monetary policy and broader monetary conditions. Their findings underline the importance of accurately measuring monetary conditions when evaluating macro-financial developments and banking-sector performance.

McKillop, Sobiech, Wilson and Chronopoulos examine the consequences of extensive consolidation in the Irish credit-union sector during a period of regulatory and structural change. While merger activity is associated with higher viability and lower insolvency risk, the analysis also identifies trade-offs involving profitability and capital strength. The study contributes to debates on how cooperative financial institutions can adapt to changing regulatory, technological and competitive pressures.

Using international evidence, **Papadimitri and Pasiouras** investigate whether climate-related financial policies influence bank valuation. Their findings indicate that climate-oriented regulatory frameworks are generally associated with higher bank value, although the effects vary according to countries' climate vulnerability and readiness to adapt. The findings suggest that climate-related financial policies can support bank value, while also highlighting the importance of tailoring policy measures to country-specific circumstances.

Reghezza and Seghezza analyse whether firms' environmental performance affects access to syndicated lending. They find that firms with stronger environmental credentials receive larger loan volumes and that this relationship became stronger following the Paris Agreement. Their findings suggest that banks increasingly incorporate environmental considerations into lending decisions and that sustainability concerns are influencing the allocation of financial resources.

4. Conclusions

The papers collected in this special issue provide timely insights into how financial institutions, economies, policymakers and financial markets navigate uncertainty and respond to an increasingly interconnected global environment. Across diverse institutional and economic contexts, emerging risks, sustainability concerns, innovation and regulatory change emerge as interconnected dimensions of banking and financial systems, creating both challenges and opportunities for economic and financial development.

A recurring message across the contributions is the central role of banks in supporting resilience and facilitating adjustment to external shocks. Whether through relationship banking, regulatory frameworks, climate-related policies or lending decisions, banks continue to play a crucial role in shaping how economies respond to shocks and structural change.

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Future research should further examine how emerging risks are transmitted across financial institutions and economies, and the extent to which banks can enhance resilience to increasingly interconnected shocks. Additional work is also needed to better understand the interaction between sustainability, regulation and financial stability, particularly as climate-related considerations become more deeply embedded in banking practices and supervisory frameworks.

Ongoing technological innovation and digitalisation raise important questions regarding the future of relationship banking, investor behaviour and the evolving role of banks in a rapidly changing financial landscape (Casu and Girardone, 2025; Girardone, Nieri and Piserà, 2027). Future studies could also examine governance and regulatory challenges, including the implications of regulatory capture and lobbying for prudential regulation and financial stability (Lambert, 2019), and the ways in which regulatory frameworks can adapt to emerging risks while promoting resilience and sustainable financial development.

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