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Economic sanctions reshape the way global banks manage cross-border relationships, and few areas feel the impact more acutely than correspondent banking. These arrangements—where one bank provides services to another to facilitate international payments—are the backbone of trade finance and remittances. But when sanctions regimes tighten, what happens to these vital channels?

Correspondent banking already faces pressure from heightened anti-money laundering (AML) rules, know-your-customer (KYC) obligations, and real-time transaction monitoring. Sanctions compound the challenge by restricting which clients, regions, or currencies can be served. For banks, the cost of compliance rises sharply, while the risk of regulatory penalties makes even profitable relationships appear unattractive. This dynamic has triggered widespread “de-risking,” where financial institutions terminate correspondent accounts in higher-risk jurisdictions to avoid entanglement.

Sanctions reshape global payment flows

Economic sanctions typically target countries, individuals, or sectors with the goal of influencing political behavior. In practice, their financial reach is felt through correspondent networks. For example, restrictions on access to the U.S. dollar—a dominant settlement currency—can effectively isolate sanctioned entities from global

markets. Banks caught facilitating prohibited transactions risk multi-billion-dollar fines, as seen in several high-profile enforcement actions over the past decade.

As a result, many global banks have scaled back exposure to regions under frequent sanctions. This retreat creates gaps in payment corridors, making it harder for local banks to process trade transactions or send remittances. The unintended consequence is that legitimate businesses and households often bear the cost of disrupted access to finance.

Compliance burdens reshape correspondent strategies

Managing sanctions risk requires extensive screening of customers, transactions, and payment messages. With ISO 20022 enabling richer data in cross-border payments, regulators increasingly expect granular monitoring and fast interdiction of suspicious transfers. For correspondent banks, this translates into significant investment in compliance technology and specialized staff.

Still, technology alone does not eliminate the gray zones. Many sanctioned entities use complex ownership structures, intermediaries, or alternative payment systems to evade restrictions. Correspondent banks must therefore adopt a risk-based approach: calibrating due diligence levels to the nature of the customer, the corridor, and the transaction. Those unable to bear the compliance burden often exit relationships entirely, reducing global connectivity.

The broader implications for financial stability

The contraction of correspondent banking networks raises concerns for financial inclusion and market resilience. Fewer correspondent ties can push cross-border payments into less transparent channels, increasing the very risks sanctions aim to mitigate, such as money laundering and terrorist financing. Multilateral institutions like the IMF and the BIS have warned that excessive de-risking undermines economic stability, especially in smaller economies reliant on trade flows and remittances.

Balancing sanctions enforcement with financial access will remain a critical policy challenge. For banks, the path forward lies in strengthening compliance frameworks, leveraging advanced screening tools, and engaging regulators to clarify expectations. Ultimately, correspondent banking will continue adapting, but its role as a global connector depends on careful navigation of the sanctions landscape.