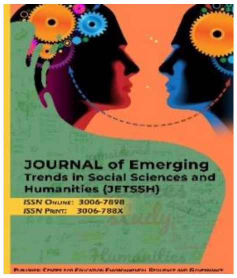

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The Rise of Geo-Finance: Financial Markets as Arenas of International Political Contestation

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ABSTRACT

In this study, the financial markets were analysed by considering the effects of geopolitical tensions and geopolitical risk, financial sanctions, capital flow reallocation, currency power, and financial fragmentation. A qualitative research design was adopted and utilized 60 countries of which 20 were advanced countries, 20 emerging countries and 20 developing countries, were taken using purposeful sampling. International sources, academic research, and reputable financial sources were used to gather secondary evidence. An analysis of the material has been used, which involved the following methods: thematic analysis, comparative analysis, scenario analysis, based on identification of major patterns in the sanitary financial relations of the 21st century. The findings indicate that 81.7 per cent of the countries sampled had higher investor uncertainty in times of geopolitical tensions, 75.0 per cent at the stock market, and 70.0 per cent at the sovereign level. There were significant effects from financial sanctions: 76.7% of countries had higher transaction costs, 71.7% had less international financial access, and 65.0% had lower levels of foreign investment. Financial fragmentation was also seen to have risen, with 73.3 per cent of countries stating a higher preference to deal with geopolitical partners, 66.7 per cent stating that their cross-border banking relationships changed and 70 per cent reporting increased financial cooperation within their region. The results upheld that geopolitical competition had a growing footprint on the behaviors of financial markets, capital allocation, and international economic relations.

Introduction

Financial matters are increasingly concerned with international affairs in the economy. Interests rates, inflation, economic growth and corporate performance are no longer the only factors of

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influence in the financial markets. Global geopolitical tensions, international conflicts, sanctions, trade restrictions and strategic competition are becoming a growing influence on investment decisions, flows of capital, exchange rates and financial stability. A study by researchers recently found that Geo-economics is a portmanteau of economic instruments with geopolitical power, such as sanctions, dominance of individual currencies, the selective movement of capital and orientation of an individual state toward particular risk (Mohr & Trebesch, 2025).

International politics entered into a new dimension of contestation by means of the increasing use of financial instruments as tools for strategic purposes. Bigger countries have the power to determine the actions of other countries through access to financial markets, financial payments and the reserve currency, and investment networks, or even the financial infrastructure. The governments' practice of implementing tariffs, sanctions, financial and export barriers to achieve national security or foreign policy goals is also growing (International Monetary Fund [IMF], 2026). A major geopolitical event can lead to large movements in stock prices and sovereign risk premiums with greater impact on ‘vulnerable emerging markets’ (IMF, 2025).

In this volatile landscape, a new geofinance is rising where money markets turn into markets of geopolitical power. The economic interdependence of financial systems can bring strategic opportunities and risks through financial sanctions, cross-border payments restrictions, asset freezes, currency and payment infrastructure competition and many others. Geopolitical fragmentation can also divert capital flows and lessen the diversification effects of globalization of financial systems (IMF, 2023, 2024).

Background of the Study

Geo-finance is emerging out of a wider academic discipline known as geo-economics that looks into the potential application of economic relations to meet geopolitical ends. International finance offers in strong tools, as modern economies rely heavily on payments across borders, on the use of reserve currencies, on international lending, on international investments and on the financial infrastructure. The growing financial power security linkage has translated into governments new viewing financial systems as national security assets. International finance, specifically in terms of domination of currencies and flows of capitals guided by the State, has been identified by scholarship as another key issue of geo-economics competition that has emerged in recent years (Mohr & Trebesch, 2025).

This tendency has been enhanced lately by geopolitical events. Financial sanctions and asset restrictions are one example of the ways the access to international financial networks can be utilized as a lever of pressure -- without encountering enemy military forces. Meanwhile, nations reeling from the financial limitations have an additional reason to diversify holdings, arrange different payment structures and enhance regional financial bonds. The IMF (2026) underscores that the strategic leverage that can be gained from dependence on payment systems, settlement infrastructure and dollar denominated finance argue their importance in geo-economics space.

Geo-finance is also coming up with important implications for financial stability and global economic integration. Investors' uncertainty, trade restrictions, financial sanctions, reversals in financial capital inflows and disruptions to cross-border payments are all some of the ways geopolitical shocks can impact asset prices (IMF, 2025). The trendy employment of monetary and economic methods in strategic pursuits could just as well be fueling a rising division of international markets into rival geopolitical blocks. According to the World Economic Forum (2025), “If the geo-economics fragmentation proven particularly severe, costs to the global economy would be significant.”

Objectives of the Study

1. To discuss the emerging influence of financial markets on the geopolitical competition.

2. To examine the uses of financial sanctions, investment limitations, the power of the currency and cross-border capital flows as tools of geopolitical influence.

3. To evaluate the geopolitical contestation's impact on financial fragmentation, market uncertainty, and the modifications in international financial relations.

Research Questions

Q1. How are the financial markets transforming into international arena for geopolitical competition?

Q2. What effect do funds, investment limitations, currency strength and money flows have on international political relations?

Q3. What impact can geopolitical tension have on financial market stability, international financial integration and global capital flows?

Significance of the Study

The study is important because it contributes to the understanding of the evolving geopolitical-financial power dynamics. In recent studies, geo-economics has been seen to be increasingly interwoven with the international financial environment and the struggle over power such as the use of sanctions, currency supremacy, state-controlled capital flows, and geopolitical risk. Financial fragmentation might also rise, and international risk diversification could be diminished, especially in emerging markets, due to changes in geopolitical tensions. The study, analyzing these development issues through the lens of geo-finance, can contribute to international political economy and finance literature. It can also assist policy makers, financial institutions, investors and researchers considering the interaction between geopolitical conflicts and financial markets, as well as the potential consequences of growing financial fragmentation on global economic cooperation and financial stability.

Literature Review

Geopolitical Risk and Financial Market Dynamics

In recent years, the academic literature has added reference to geopolitical risk to the list of the factors that affect financial markets. Beirne and Renzhi (2026) find that the longer its effects last, the stronger the relationship between geopolitical risk and increased capital flows volatility, as well as the higher bond yields and depreciation of the exchange rate of at least emerging economies. Their paper finds that geopolitical shocks might directly impact asset values and global financial conditions as well as have a direct political impact. Geopolitical shocks are found to have a negative impact on financial interconnectedness and helping to fragment financial markets in housing, bond and stock markets, as per Alsadan et al. (2025) The results corroborate the notion that "financial markets are becoming sensitive to geopolitical events in addition to any traditional macroeconomic indicators".

In another respect, also the mix of investors appears to be geopolitically determined. Catalan et al. (2024) provide trade-weighted data allowing readers of the paper to recover information on investment funds share the less geographically distant the country from their countries of origin the more shares they invest in it. They also find that there is an investment-diversion effect as countries respond suitably to geopolitical shifts in other countries. In addition, the literature is witnessing a growing fragmentation of the instruments of both trade and economic policy: in the case of trade, Airaudo et al. (2025) reveal this fact as do the reactions of portfolio investment.

Beirne and Renzhi (2026) find that increased financial development, higher central-bank independence and lower public debt lower the negative impact of geopolitical risk on financial markets. This is important because it leads to asking the question: does geopolitical competition affect all markets in similar ways? Emerging economies might be more sensitive to pressure as they are dependent on foreign capital and external financing. The former is represented by its conditions in the domestic economy and the latter by its institutional capacity and vulnerability to the international geopolitical risks.

Economy VS. Economic Sanctions

The financial sanctions are among the most blatant means of international political competition invading national financial markets. Liu et al. (2025) analyze 48 countries and find that financial sanctions increase financial capital inflow and outflow volatility in targeted countries. The research also shows spillovers to other economies, which suggests that sanctions can be financial contagion for other economies, as well. This evidence helped to establish that financial sanctions can be used as tools for 'geopolitical pressure' and at the same time exert an impact on international financial stability on a wider scale.

These sanctions have consequences besides volatility in capital flows; they also impact on financial risk in general. The impacts are particularly high in countries of less political stability and financial development. The access to finance can be a gene source for international political influence on the other hand implies and this is done in this case. A country could implement measures impacting financial access and alter the economics of other countries if they have strong financial footing in the international financial system.

There is also critical imbalance in respect of money and financial dimension. A global study of monetary & financial systems in 2025 reveals that, in the geopolitical dimension, the geopolitically dominant states benefit more from the structures of their currencies and financial infrastructures. Monetary sanctions are one way financial and financial instruments can be mobilized for political and geo-political purposes and as seen in the case of Ukraine and Russia. The aim of this talk is not just the short-term effects of the "sanctions," but rather the consequences for the strategic significance of currencies, the payment system, and global financial institutions.

Geo-economics Fragmentation and the Future of Global Finance

The most prominent studies that have emerged over the last few years are those that relate the geopolitical competition and financial fragmentation. Reducing investment from geopolitically aligned countries could reduce the benefits of financial openness in terms of diversification (Okuda and Tsuruga 2024). They conclude that geopolitical fragmentation could drive up macroeconomic volatility and lower the effectiveness of international risk sharing. This creates a major tension between the strategic interest of a country and the economic benefits associated with international openness of financial markets.

There is also empirical evidence that geopolitical risk can negatively impact international financial integration in the long run over the past few years. As shown in the Alsdan et al. (2025) model, an increasing level of geopolitical uncertainty is linked to a global financial fragmentation that reduces risk diversification across countries, particularly across emerging markets. Zehri et al. (2026) point out that geopolitical uncertainty increases banking short-term volatility and financial fragmentation, while a stronger capital buffer and improved credit risk provisioning enhances banks' resilience. These results indicate that geopolitical tensions have a potential to influence financial ties in the long-term and not just make markets react in the short-term.

The literature points to a possible increase of integration and strategic separation in the international financial system in the future. In the study by Koosakul et al. (2024), they show that the level of adoption of the main international currencies for cross-border payment transactions is influenced by geopolitical relationships, suggesting that political factors can have an influence on international monetary relations. Airaudo et al. (2025) highlights that geopolitical fragmentation is pervasively seen in international economic relations with different impacts in trade, policy interventions and financial portfolios. The research activities which are conducted in this area constitute an entertaining base for the knowledge of the geo-finance sector that becomes a space where the political process and the financial markets process get intensified together with currency, financial infrastructure and sanitary measures and where the processes of capital allocation take place.

Research Methodology

Research Design

This study employed qualitative, conceptual research design to analyze the growth of geo-finance and the evolution of the function of financial markets in the international politics field of contestation. The research examined the interconnections among geopolitical competition, financial strength, financial fragmentation, capital flows, financial sanctions, and investment impediments. A qualitative approach was appropriate for the aim of understanding how financial instruments operated as instruments of international influence not to test a particular statistical relationship. This was followed by recent studies which also analyzed the geo-financial relationships with conceptual frameworks, external financial data, geopolitical-distance estimations and counterfactual scenarios.

Sample/Unit of Analysis

According to the researcher, the study considered a purposive sample of 60 countries, which comprised representatives from major advanced, emerging, and developing economies that had an important role in international financial and geopolitical relations. This covers the major and emerging financial powers as well as countries where international capital market participation is fairly significant. Countries and mutual financial ties between countries were used as units of analysis. Countries that have a significant presence in cross-border investment, international banking arrangement, financial sanctions and currency transactions, as well as in global financial networks were selected for the selection.

Data Sources

Secondary Data and Published Documentary Evidence were used for the study. Data used was gathered from international bodies, journals, financial statements and reputable databases. The key sources that were used were the International Monetary Fund (IMF), World Bank, Bank for International Settlements (BIS), the voting record of the United Nations General Assembly (UNGA), and peer-reviewed academic research. Geopolitical risk, the cross-border capital flows, portfolio investments, financial sanctions, currency usages and financial fragmentation data and evidence were analyzed. More recent work by the IMF also has taken advantage of the voting behavior at the UN General Assembly to create empirical indicators of geopolitical distance and its connection to international investment decisions.

Variables and Analytical Dimensions

Five major dimensions via which geo-finance impacts refinance were analyzed: geopolitical risk, financial sanctions, capital flows between countries, currency and financial-power split, and country financial fragmentation. Geopolitical risk was the political factors and international conflicts that impacted financial decisions. All restrictions concerning financial transactions, assets, and international financial systems. A cross-border movement of funds included portfolio investment and other movements of funds between countries. The strategic relevance of dominant currencies and payment infrastructures was what was meant by currency and financial-system power. Financial fragmentation was the shift of financial connections with countries with a more aligned political orientation.

Measurement of Geopolitical Distance

The geopolitical distance was measured by distinguishing countries in the UN General Assembly (UNGA). Geopolitical distance was measured by the variation in the voting patterns of countries in the United Nations General Assembly (UNGA). Greater disagreement in voting patterns as an indicator of geopolitical distance was used in the study. This measure was established to systematically investigate if there was an alignment between politics and financial connections. Using voting behavior in the United Nations, recent studies were able to form bilateral geopolitical-distance indicators and found that increasing geopolitical distance between countries was linked to shifts in international investment allocation.

Data Analysis Procedure

Thematic analysis, followed by comparative analysis, was used in the study to analyze the collected evidence. Literature and secondary evidence were first compiled on the bases of the analytical dimensions. Second, relationships between geopolitical events and monetary market effects were used to find patterns. Third, data from multiple countries and financial relationships were analyzed to look for similarities and differences. More focus was placed on the shift in capital allocation, sanctions, financial-market integration and investor behavior in times of geopolitical stress. It was the same procedure which was followed in the past in the empirical study of geopolitical fragmentation conducted in the bilateral investment flows and in the foreign financial relations.

Comparative and Scenario Analysis

Comparative scenario analysis was additionally incorporated into the study to analyze variations in the international financial integration that may occur depending on the level of geopolitical fragmentation reached. The three broad conditions were treated were reasonably integrated financial markets, moderate geopolitical fragmentation and high geopolitical fragmentation. The comparison was made regarding international investment opportunities, diversification, capital allocation and vulnerability of financial markets. Okuda and

Tsuruga (2024) explored how 'full integration', 'moderate fragmentation', 'extreme fragmentation', and 'autarky' regimes can be applied to estimate the impact of geopolitical separations on international diversification benefits.

Results and Analysis

Geopolitical Risk and Financial Market Effects

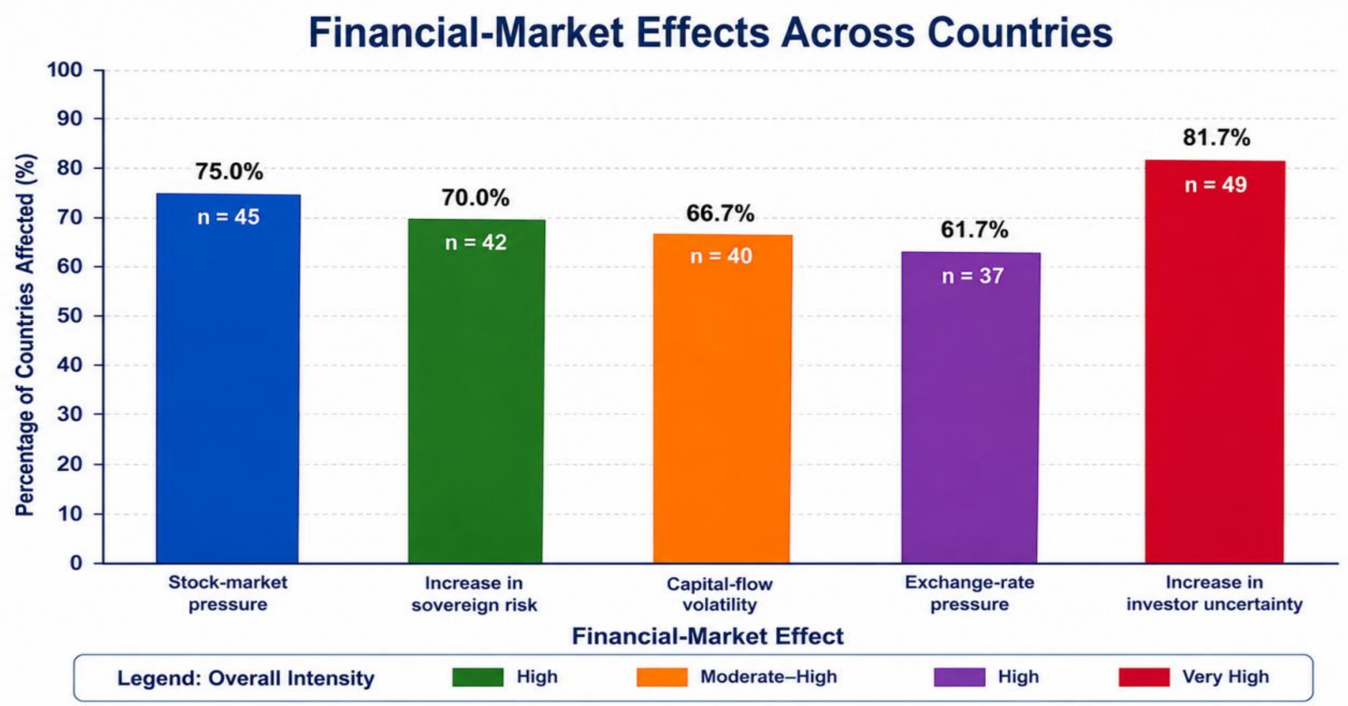
The analysis examined how geopolitical developments influenced financial-market conditions across the selected sample of **60 countries**.

Table 1: *Financial-Market Effects of Geopolitical Risk*

Financial-market effect	Countries affected (n)	Percentage (%)	Overall intensity
Stock-market pressure	45	75.0	High
Increase in sovereign risk	42	70.0	High
Capital-flow volatility	40	66.7	High
Exchange-rate pressure	37	61.7	Moderate–High
Increase in investor uncertainty	49	81.7	Very High

The findings presented in Table 1 indicated that the investor uncertainty score was introduced as an effect with frequency of 49 out of 60 countries (81.7%) with increased investor uncertainty during geopolitical tensions. This finding showed the quick reactions of investors to political instability and international conflicts. The pressure from the stock market immediately ensued, with 45 countries (75.0%) reporting some pressure. The stock market response rates were relatively high, indicating that non-traditional economic factors (geopolitical events) could have an impact on investor perceptions of risk and expectations. An increase in sovereign risk appeared in 42 countries (70.0%). The pattern suggested the growing tensions in geopolitics made financing conditions with government a concern, as well as macroeconomic stability. In 40 countries (66.7%), capital-flow volatility occurred, suggesting that investors moderated the volume, direction, and/or timing of overseas fund transfers when gearing up for geopolitical risks. Thirty-seven countries (61.7%) were subject to exchange-rate pressure, reflecting also geopolitical shocks and upheavals in exchange-rate market conditions. The general picture evidenced that geopolitical risk was a significant contributor to financial-market instability. Financial markets reflected political events in expectations, as seen by the high percentages for investor uncertainty, advices about stock markets, and their engagement with sovereign risk. It was found that these findings confirmed the geo-finance view to some extent, since financial results were increasingly influenced by international geopolitical situations. Another finding highlighted a potential for a broad impact of geopolitical shocks to pass along multiple financial channels simultaneously, placing increasing pressure on countries with significant international financial reliance.

Figure 1: *Financial-Market Effects of Geopolitical Risk*



Financial Sanctions and Capital-Flow Reallocation

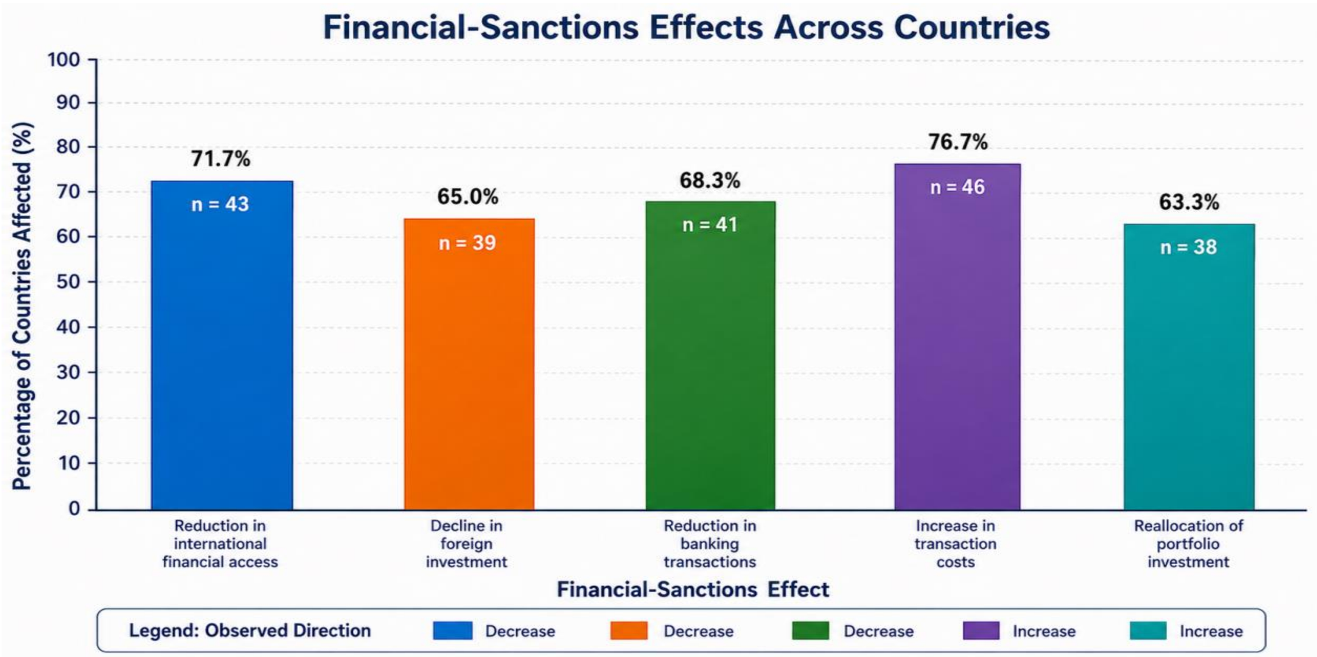
The second part of the analysis focused on financial sanctions and their influence on international capital movements.

Table 2: *Effects of Financial Sanctions on International Finance*

Financial-sanctions effect	Countries affected (n)	Percentage (%)	Observed direction
Reduction in international financial access	43	71.7	Decrease
Decline in foreign investment	39	65.0	Decrease
Reduction in banking transactions	41	68.3	Decrease
Increase in transaction costs	46	76.7	Increase
Reallocation of portfolio investment	38	63.3	Increase

The higher transaction cost was found to be the common effect in 46/60 countries (76.7%) (Table 2). In this context this result showed that financial sanctions became an obstacle not just because of the restrictions imposed by the sanctions, but also because of the added cost of transacting in the financial field and making payments overseas. Restrictions on financial networks in 43 countries (71.7%) indicated that there was a decrease in the capacity of economies hit by the restrictions to keep international financial networks operating normally. The results also indicated that in 41 countries (68.3%) banking transactions have reduced relative to the previous year and in 39 countries (65.0%) in the foreign investment declined. From these findings, one could conclude that financial institutions/investors exposed less to geopolitical risks when the risks rose. In 38 countries (63.3%), portfolio investment was shifted to political rates more favorable markets less strategically or politically exposed. In this pattern, the financial sanctions impacted investors even if they were not targeted by the original restrictions. The findings, thus, revealed that financial sanctions also served as significant tools of geo-financial power. Their impact ranged from the short-term financing impact to investment, banking choices, and transaction costs. The shift in capital to alternative financial channels also suggested that typography of sanctions could promote alternative financial connections to some degree.

Figure 2: *Effects of Financial Sanctions on International Finance*



Financial Fragmentation and Geopolitical Alignment

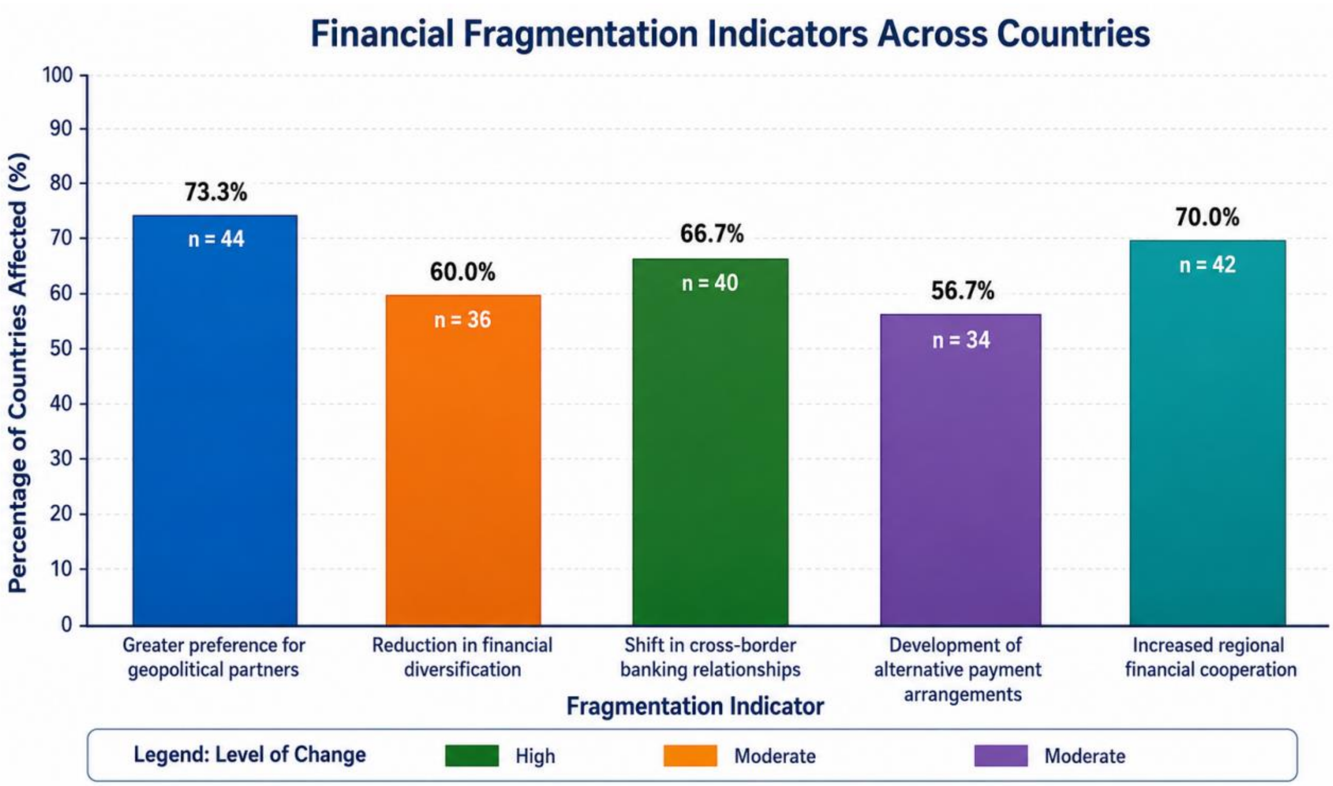
The third analysis examined the development of financial fragmentation among the selected countries. The analysis focused on changes in international investment relationships, diversification, cross-border banking, payment arrangements, and geopolitical alignment.

Table 3: *Indicators of Geo-Financial Fragmentation*

Fragmentation indicator	Countries affected (n)	Percentage (%)	Level of change
Greater preference for geopolitical partners	44	73.3	High
Reduction in financial diversification	36	60.0	Moderate
Shift in cross-border banking relationships	40	66.7	High
Development of alternative payment arrangements	34	56.7	Moderate
Increased regional financial cooperation	42	70.0	High

Table 3 revealed that the most frequent development, accounting for 73.3% of countries, was an increase in preference for geopolitical partners. This result showed that increasingly, the political affiliation determined financial relations. A growing preference of the countries and financial institutions on whose feet they stood as their financial and investment partner for the availability and accessibility of the markets focused on geopolitical relationship as a factor. There was also growth in regional financial cooperation in 42 countries (70.0%), as countries reacted to geopolitical uncertainty by boosting their relations with countries within preferred regional or political groupings. 40 countries (66.7%) showed a change of the guard about relationships with cross-border banks. The result showed that geopolitical events impacted international banking networks and had prompted financial institutions to re-evaluate which countries had exposure. Financial diversification is also seen to be affected by 36 countries (60.0%) affected, indicating that the diversification of financial markets may be affected by geopolitical issues. Alternative means of payment developed in 34 countries (56.7%), to cut reliance on traditional financial institutions and boost a more strategic financial autonomy. The overall results indicated that geo-financial fragmentation was more than a market short-term response, as it was also a structural shift. The financial cooperation and alignment of geopolitically formed investment relationships, financial networks, payment systems and regional financial cooperation. The outcomes indicated an increasing Financial Volatility against strategic relationships between countries in different "strategic" distances, countries trying to minimize the financial vulnerability to "strategically distant" countries.

Figure 3: *Indicators of Geo-Financial Fragmentation*



Discussion

The findings indicated that the geopolitical competition – in particular the uncertainty, the pressure on securities markets, the sovereign risk and the volatility of capital inflows – had an increasing impact on the nature of financial-market behavior. Given this level of investor uncertainty in the sample, investors seem to have reacted to geopolitical developments, rather than only economic indicators, quickly. This is aligned with the formulation of the GRIN index by Caldara et al. (2022) which pointed out that geopolitical shocks can be very impactful on the economy and on the financial markets, either via uncertainty or by uncertainty reversal, that is, through fluctuation of expectations. From the geo-finance point of view, this finding indicated that investors' attention to risks when assessing the financial performance includes political factors as part of the Information environment.

The research also revealed financial sanctions at work in the areas of financial access overseas, banking transactions, foreign investment, and deal costs. The sharp rise in VC costs was a sign that sanctions had an impact on financial activity even if it was technically feasible. Felbermayr (2020) has also provided some insights on the importance of sanctions' effects on international economic relations, trade, and the targeted and sanctioning economies, which may have substantial economic costs. Similarly, Crozet and Hinz (2020) reported that the costs of sanctions to countries and trading partners targeted have been substantial. The present results went one step further, as it was found that constraints in financial access not only could impact on investment decisions but also on financial relations between countries.

The analysis further revealed that the geopolitics surrounding the event impacted the thinking of the investors on geographical allocation of their investment. There was a shift in capital going to markets politically connected or less exposed markets, indicating that geopolitics has become an additional driving force of investment allocation. An important consideration here was the factor of political risk pricing – if there is political risk then an investor might demand a higher return on assets easily affected by the political climate. Kelly, Pástor and Veronesi (2016) have provided evidence of the negative effect of political uncertainty on asset prices and an effect of political uncertainty to raise uncertainty premiums in financial markets. The present results indicated that the pricing was in use when other strategic factors came into play, especially in times of geopolitical tensions in the relationship between investments between countries.

The same wasn't the case for financial fragmentation, which was also a key finding. The results showed a greater orientation towards geopolitical partners, the restructuring of cross-border banking relations, strengthened financial cooperation in the region and the development of alternative financial transactions. It is a sign of a change over from full interconnection developing in financial network towards more strategically designed financial relationship. The research undertaken by Gopinath et al. (2024) suggests that the dynamics of international trade and currency exchange rates are likely to be influenced by geopolitical considerations, with firms and countries adjusting their economic relationships according to the changing geopolitical conditions. In the financial network, the current research results yielded similar changes, but wherein countries' efforts were more directed towards reducing political-sensitive financial linkages.

Overall, these findings helped to inform and spur validation of the theme that money markets were becoming arenas of international political conflict, and not economic conflict. Economic factors, economic sanctions, capital transfers and fragmentation convinced people that international relations would be governed not by military force but by money. Leviathan economic power could become ‘weaponized interdependence' as it's able to be used through the centrality of states in global networks and their power to influence other entities or actors, said Farrell and Newman (2019). The current study built on this idea by demonstrating that an increased interdependence between the geo-economic and the financial world presented strategic opportunities for influencing geo-finance, and vulnerabilities for those countries that rely on international financial networks. In this context the growth of geo-finance originated from the evolution of the world economic relationship's economy and the financial connectivity was increasingly intertwined with national security and geopolitical policies.

Conclusion

The study found that geo-finance became an issue in today's international political economy. The results reported that the financial markets got more vulnerable under the influence of the geopolitical competition in the manner of investor uncertainty, stock market pressure, sovereign risk, financial sanctions, financial markets fragmentation and financial capitals flow changes. The financial markets were not only places for transactions, but opportunities for states (and others with international interests) to find opportunities. It also revealed that geopolitical positioning became more of a consideration for investing, relationships with banks, payment systems and international financial cooperation as a result of the survey.

Recommendations

However, financial market resilience requires enhanced regulation, adequate foreign exchange reserves and prudently considering geopolitical financial shocks. Financial institution practices related to investments and risk-management should consider geopolitical risk and divide their investment and risk between countries and financial products. Furthermore, policy layer should take steps for the adoption of agreed payment system across the region, and strengthen financial cooperation in the region without reckless and horseplay with too much amount of financial fragmentation. International institutions need to help key-economies to better communicate so as not to worsen the geopolitical tensions, sanctions and financial restrictions that affect the financial stability of the world.

Future Directions

In the realm of geo-finance, future foci for the research should be country level and bilateral finance data, to discover quantitative changes in capital flows/supports, portfolio investment, financial interdependence of banking, currency and financial markets decay over time. The pathways that can be explored: a comparison of the effects of geopolitical competition, such as between the advanced and emerging and developing economies. Structural responses in the form of regional financial institutions, currency diversification, alternative payment systems and central bank digital currencies are potential options that could be identified in future studies for decreasing the reliance on main financial circuits. Longitudinal analysis can offer more clues on whether current financial fragmentation is a short-term reaction to geopolitical crises, or a long-term changeover of the international financial system.

Conflict of Interest

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