

Press release

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ECB and ESRB issue joint report analysing financial stability risks from geoeconomic fragmentation

- Geoeconomic fragmentation and geopolitical risk have become key sources of macro-financial uncertainty, which can affect financial stability
- Geopolitical shocks can amplify financial stress and dampen economic growth
- Report sets out new monitoring framework integrating geopolitical indicators into financial stability analysis

The European Central Bank (ECB) and the European Systemic Risk Board (ESRB) today published a joint report entitled “[Financial stability risks from geoeconomic fragmentation](#)” with [technical annex](#), which examines how rising geopolitical risks and heightened uncertainty can affect financial stability in the euro area and across the European Union. The report identifies the key transmission channels through which geopolitical shocks can propagate to the financial system.

The following findings indicate that geopolitical shocks and policy uncertainty tend to lead to tighter financial conditions, financial market stress, increased risk premia and reduced loan growth.

- Geopolitical risks and policy uncertainty have risen markedly since the mid-2010s, with notable increases in 2024 and 2025. At the same time, financial market volatility has remained contained or short-lived.
- Estimates suggest that geopolitical risks lower expected growth outcomes, with significant downside tail risks for the real economy, accompanied by heightened financial stress. Geopolitical events can significantly alter the interconnectedness between bonds, commodities, equities and exchange rates.
- The impact of geopolitical shocks is heterogeneous across EU Member States, whereby more open economies and those with higher public debt ratios tend to be more vulnerable to amplification effects.

- In response to geopolitical shocks, banks and non-banks adjust their balance sheets by reducing lending, especially cross-border exposures. While this reduces the financial system's exposure to external shocks, it also limits international diversification.

At a time of accelerating geoeconomic fragmentation and persistent geopolitical uncertainty, the ECB and the ESRB stress the importance of enhanced, more harmonised datasets, as well as complementary scenario analyses, for preserving financial stability and increasing economic resilience.¹ The report's insights can help policymakers and financial institutions to better detect and evaluate geopolitical risks for the financial sector and calibrate macroprudential policy responses.

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Notes

- The report was prepared by financial stability experts under a joint workstream of the ECB's Macroprudential Analysis Group and the ESRB's Analysis Working Group.

¹ Geopolitical risk is an important consideration for European banks and supervisors as they [navigate global risks](#). In view of this, ECB Banking Supervision made geopolitical risk the focus of the adverse scenario in the [2025 stress test of euro area banks \(see Box 6\)](#) and will assess banks on their geopolitical risk management in the context of the [2026 reverse stress test](#).