



Key takeaways from the ECB's new Financial Stability Review

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S V E R I G E S R I K S B A N K



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The ECB FSR

- Extensive.
- Rich in analyses that support the illustration of well described results.
- Really like the boxes and special features.

Financial stability vulnerabilities remain elevated, given uncertainty over geoeconomic trends and tariff impacts

- 1** | High asset valuations carry the risk of sharp adjustments that could challenge and be amplified by non-banks
- 2** | A challenging fiscal outlook in some advanced economies could test investor confidence and lead to stress in sovereign bond markets
- 3** | Credit risk exposures to tariff-sensitive firms and growing funding risk exposures to non-banks could pose challenges for banks during periods of economic or market stress

My discussion

- What the main official conclusions are?
- What would Artificial Intelligence write if we guided it (?)?
- A few comments about additional analyses for future editions.

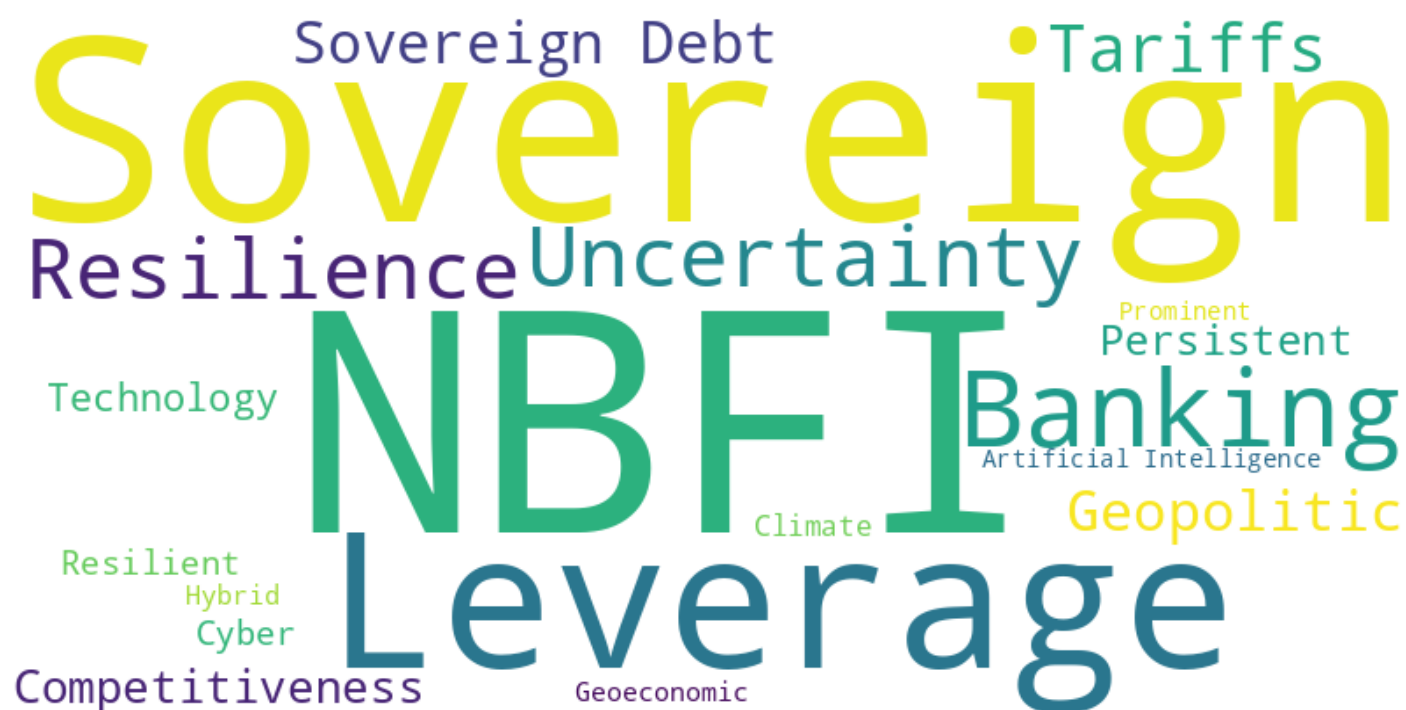
ECB FRS main (official) conclusions

- Financial stability vulnerabilities remain elevated, given uncertainty over geoeconomic trends and tariff impacts
 - Main risks highlighted by John's presentation:
 - Trade policy uncertainty
 - Sovereign debt sustainability
 - Sizable fiscal spending
 - High assets valuations
 - Contagion
 - The overall assessment reflects **persistent vulnerabilities** in the financial system despite pockets of **resilience**.

Let's get creative and run an experiment!

1. I **manually** searched for **keywords** used by John in his presentation and a few more about topics I work with;
2. I counted how **many times these words** have been used in the FSR (did not check the tone/context);
3. **I fed the word search to the AI** -- **The AI has not seen the FSR nor the slides yet!**
 - I ask it (?) to show a **visualization** based on the number of times the word was used;
 - I ask it to **write a sentence using these words** and their relative score;
4. **I gave the AI the FSR and the slides:** I ask to check the consistency of its conclusions with the one of the ECB published.
5. What were the results?

ECB Financial Stability main insights by keywords



What AI makes of these words? **Conceptual Grouping**

- In a financial system increasingly driven by **NBFIs** and **sovereign priorities**, the **banks and countries strategic behaviour** sit at the core of risk transmission;
 - Managing **uncertainty** and building **resilience** are vital as **tariffs, sovereign debt pressures, and geopolitical tensions interact**.
 - At the same time, advances in **artificial intelligence** and **cyber** capabilities reshape **competitiveness**, while persistent, **hybrid threats** increasingly intersect with climate-related vulnerabilities.
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- **Does this text align with the main conclusion of the ECB? YES**
 - **What topics then could be explored more?**

Additional ideas for future editions

- A few things could be discussed **more explicitly**:
 - **BigTech** and digital-finance power (incl. digital euro angle);
 - **Distributional and political-economy** effects of geoeconomic fragmentation;
 - **Long-term structural trends**: ageing, productivity and pensions;
 - Interaction between the **real economy and financial stability**: the role of creative destruction and innovation.
- A few more topics could be **explored**:
 - As Sascha Steffen recent linkedin post asked: **Are we in a AI bubble?**
 - The actual risks versus the efficiency and productivity gains of AI.
 - **Nature-related risks beyond climate (which is barely mentioned anyway);**

Geopolitical vs Geoeconomic Risk (I)

- **Geopolitical Risk:** Risks arising from political instability, conflicts, or diplomatic tensions between nations that affect global security and international relations.
 - These risks impact financial markets through uncertainty, regulatory changes, and potential disruptions to supply chains and security.
- **Geoeconomic Risk:** Risks related to the use of economic instruments (trade, finance, technology) to achieve geopolitical objectives or exert influence.
 - These risks influence trade flows, investment decisions, and cross-border financial stability, reflecting the economic dimension of geopolitical conflict and competition.

Geopolitical vs Goeconomic Risk (II)

- **Geopolitical Risk:**

- The FSR reflects considerable and detailed work on geopolitical risks, recognizing them as a core driver of vulnerabilities alongside fiscal, market, and credit risks.
- The analysis spans macroeconomic, sovereign, banking, and non-bank financial sectors and emphasizes policy and supervisory responses to build system resilience.

- **Potential improvements:**

- More granular analysis by sector and country to capture **heterogeneous vulnerabilities**.
- Enhanced quantitative modeling of **isolated geopolitical shocks and feedback loops**.
- Further focus on cyber and hybrid risk as **concrete geopolitical** threat factors.
- Clearer **policy coordination, contingency planning**, and real-time data monitoring frameworks.
- Greater focus on **cross-border regulatory harmonization** to manage global geopolitical risks.

Geopolitical vs Geoeconomic Risk (III)

- **Geoeconomic Risk:**

- The report underscores geoeconomic risks as core to euro area financial stability outlook and calls for vigilant monitoring, macroprudential resilience, and coordinated policy responses.

- **Main Implications:**

- Continued vigilance on trade-related risks amid uncertain global policy environment.
- Targeted macroprudential measures to mitigate credit risks exacerbated by geoeconomic uncertainty.
- Enhanced monitoring of sovereign funding conditions.
- EU and Global Policy coordination to manage spillovers and fragmentation risks associated with geoeconomic tensions.

- **Wish list:**

- Deepening quantitative modeling, analytical granularity, and the linkage to operational policy frameworks.

Conclusions

- The ECB FSR provides important insights.
- Recent events have provided substantial food for thoughts.
- I am sure we won't wait long to see more analyses done to understand whether new potential risks pose a real threat to the stability of the Euro area financial system.

