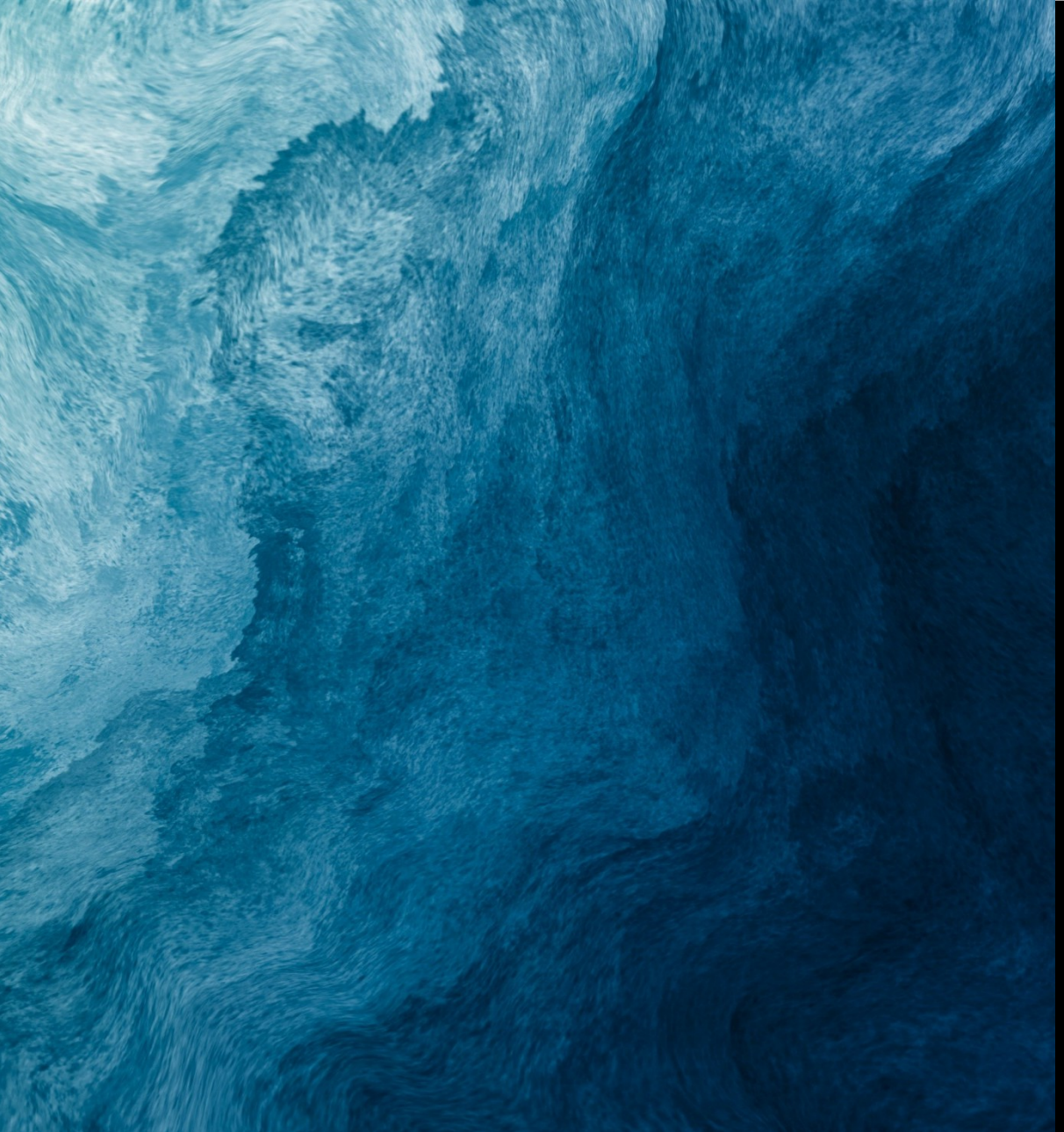




FRAGMENTED WORLD, INTEGRATED MARKETS: MANAGING SYSTEMIC GEOPOLITICAL SHOCK

MNB FINANCIAL STABILITY
CONFERENCE: PRUDENTLY
CATALYZING COMPETITIVENESS

25TH SEPTEMBER 2026 | BUDAPEST

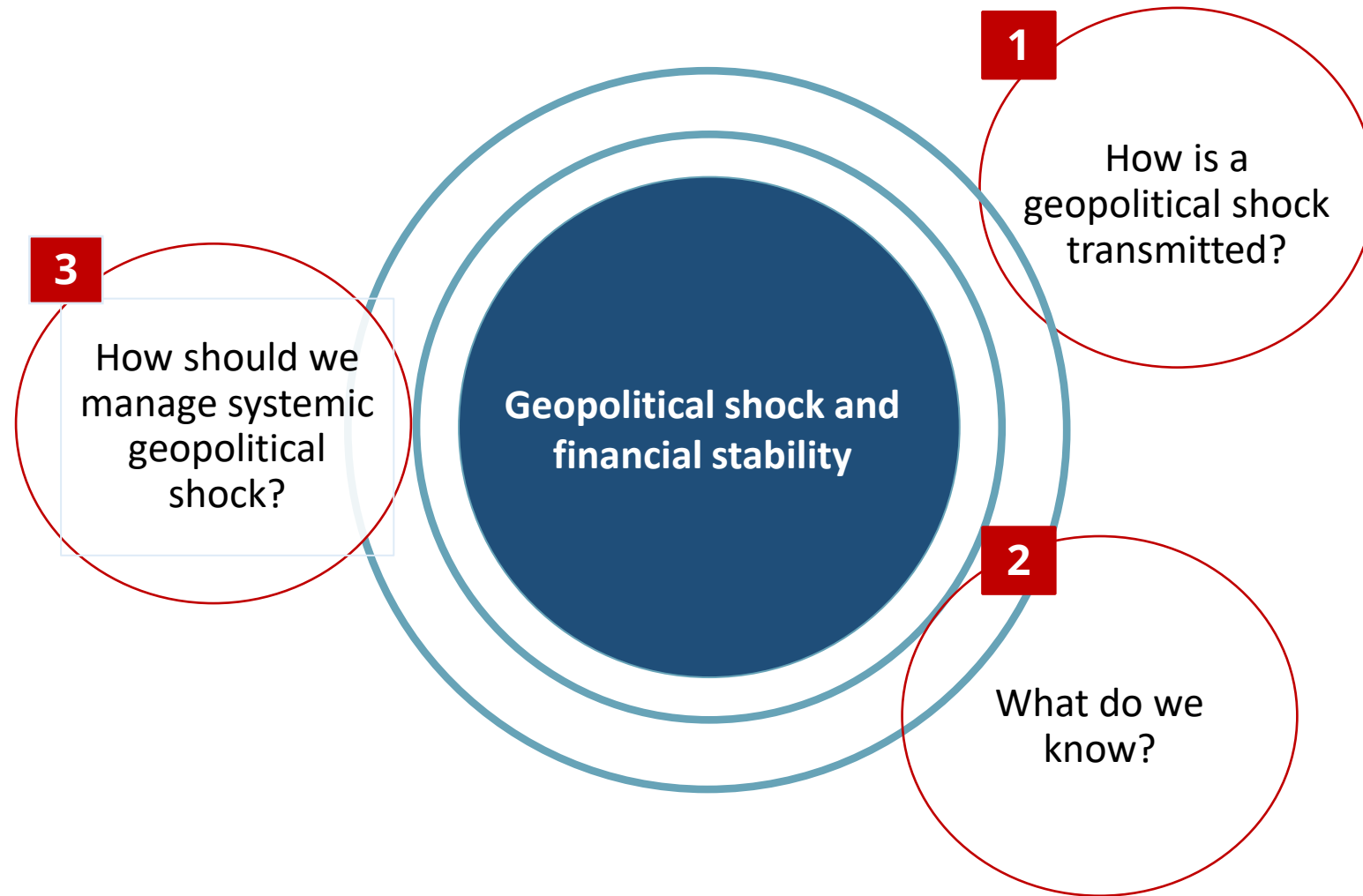
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PORTUGAL
EUROSISTEMA

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CAN SYSTEMIC GEOPOLITICAL SHOCK CREATE NEW SOURCES OF FINANCIAL FRAGMENTATION AND INSTABILITY?



HOW IS A GEOPOLITICAL SHOCK TRANSMITTED?



Geopolitical shock

Different Channels
Can affect all traditional
categories of banks' risks



Mutual reinforcing and
amplification mechanisms of
existing vulnerabilities

Real

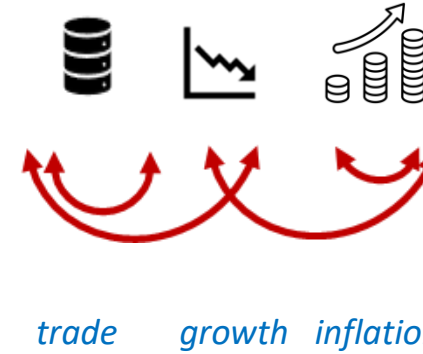
- Trade restrictions
- Disruptions in supply chains and commodity market

Operational

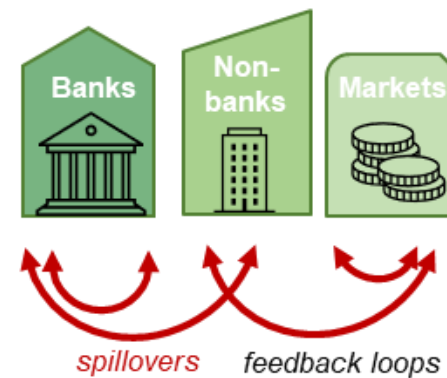
- Physical destruction of critical infrastructure
- Disruption of critical business functions

Financial

- Uncertainty and risk aversion
- Tighter financial conditions
- Asset price volatility (commodities, stocks, interest rates, sovereign and credit spreads)



- Cross-border reallocation of credit and other assets classes



- Uncertainty about the distribution of future shocks, how they will propagate through the economy and financial system, and their ultimate impact.

Financial fragmentation

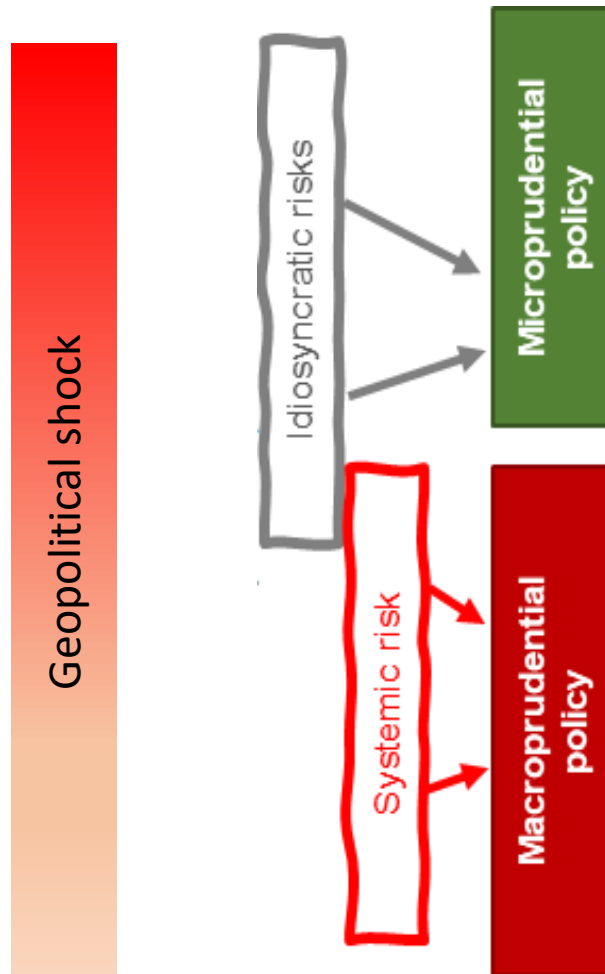
Financial (in)stability

WHAT DO WE KNOW?



- Countries with **higher macroeconomic and financial vulnerabilities tend to be more severely affected**, with greater downside risks to growth and financial stability.
- Geopolitical shock can also alter **the degree of synchronisation of financial and business cycles across EU Member States**.
- **Banks adjust their balance sheets to geopolitical shocks:**
 - Greater selectivity in lending decisions, reducing the probability of establishing new lending relationships.
 - Lower cross-border bank flows, weakening financial integration and risk-sharing mechanisms and increasing financial systems' vulnerability to domestic shocks.
 - Shifts in credit allocation within economies, reducing credit to energy-intensive firms while increasing overall new lending.
- **Banks are affected differently depending on their initial resilience:** better capitalised banks are better able to absorb shocks, while weaker balance sheets can amplify the transmission of geopolitical stress to credit and to the real economy.
- Systemic geopolitical shocks can amplify existing vulnerabilities and create new channels of financial fragmentation by reshaping cross-border financial flows, credit allocation and financial interlinkages.
- Whether **the impact of these shocks become systemic ultimately depends on the resilience of countries and financial institutions**. Strong financial-sector resilience and lower macro-financial vulnerabilities are therefore key to limiting their amplification through the financial system.

HOW SHOULD WE MANAGE A GEOPOLITICAL SHOCK?



- Promote a better understanding of the transmission channels
 - Integrate geopolitical considerations in risk management practices
 - Encourage banks to adopt pricing models that capture geopolitical shock
 - Promote stress tests exercises
 - Guarantee that banks have sufficient capital and liquidity buffers to absorb unexpected losses and sufficient operational resilience
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- Have the capacity to identify, monitor and assess systemic geopolitical shock
 - However, some geopolitical indicators are aggregated or available only for a specific set of countries
 - Strengthen resilience at a system-wide level against unforeseen events
 - Build up releasable capital early in the financial cycle to respond to a wide range of shocks
 - Be flexible within a harmonised and coordinated international approach (especially at the European Union level)

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THANK YOU!

