EUROPEAN CENTRAL BANK

EUROSYSTEM

Integrated, open and resilient: Europe's strengths in a fragmenting world

Central Bank of Ireland

Financial System Conference



2 November 2026

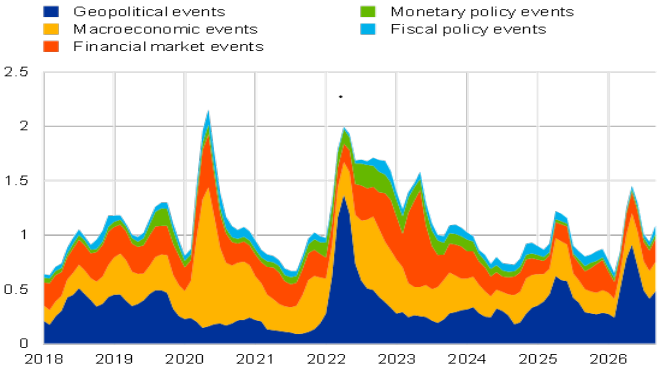
Boris Vujčić, Vice-President of the ECB

Geopolitics shapes economic outcomes

- Geopolitical shocks are becoming more frequent.
- They affect growth and inflation directly, and they can threaten financial stability.
- Three shocks in which supply factors played a role: in 2020, 2022 and, most recently, March 2026.

Indicator for the severity and probability of triggers (SPOT)

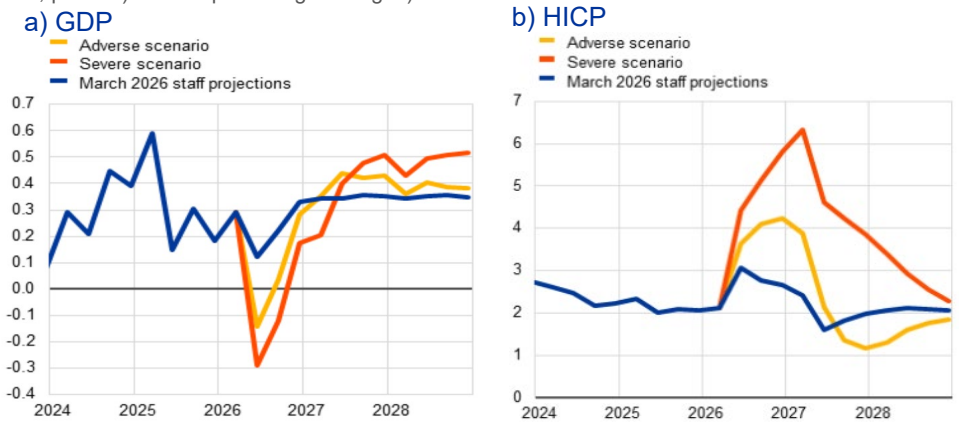
(January 2018-September 2026, average expected impact of identified triggers)



Sources: ECB calculations based on Kellner, D. et al. (2026), "A SPOT in the dark: using AI to assess financial stability risks", *Working Paper Series*, No 3262, ECB.
Note: The indicator uses large language models (LLMs) to identify potential financial stability trigger events based on FT articles and assesses their likelihood and severity over the following year.

March 2026 staff projections: baseline and alternative scenarios

(panel a): quarter-on-quarter percentage changes, seasonally and working day-adjusted quarterly data; panel b): annual percentage changes)



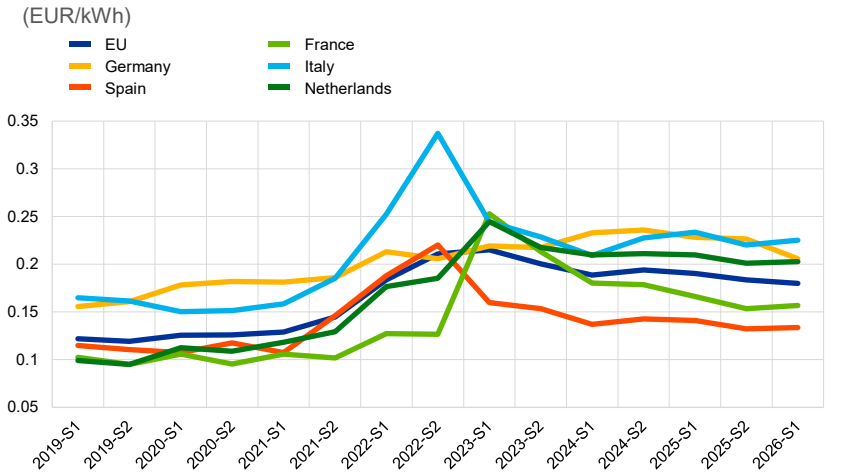
Sources: ECB calculations. See also "ECB staff macroeconomic projections for the euro area", March 2026.
Note: The adverse and severe scenarios use different assumptions about developments in the tensions in the Middle East and the impact on energy prices, uncertainty and propagation channels.

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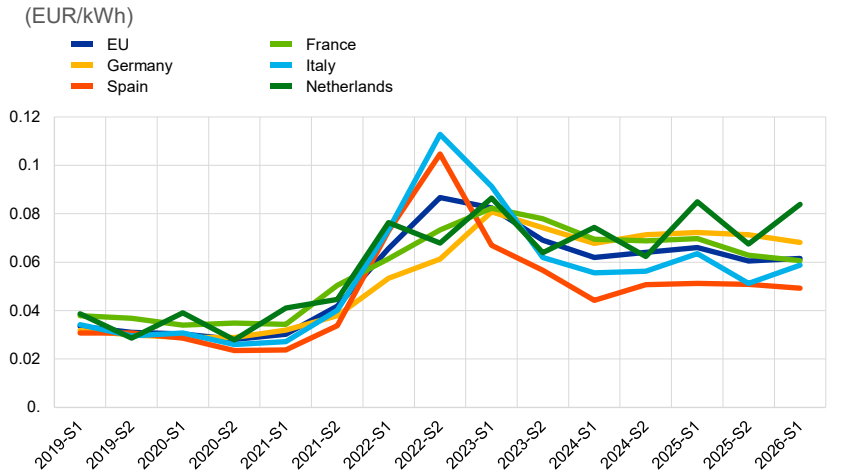
Geopolitical shocks have an uneven impact across EU countries

- Energy producer prices more than doubled between 2020 and 2022.
- Electricity and gas prices for firms rose sharply and remained persistently high after Russia's unjustified war against Ukraine.
- The magnitude and persistence of this increase differed considerably across countries.

Electricity prices for firms



Gas prices for firms



Source: Eurostat.
Note: The prices refer to medium-sized industrial consumers (band IC for electricity and I3 for natural gas) and exclude recoverable taxes and levies such as VAT. S1 and S2 refer to the first and second half of the year.

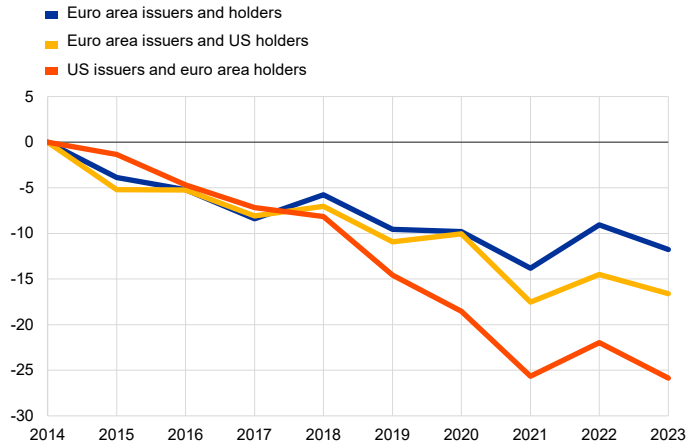
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Europe is held back by its own fragmentation

- Since 2014 estimated tariff-equivalent frictions in cross-border equity holdings between the euro area and the United States have fallen by more than frictions within the euro area.
- US venture capital funds invest around six times as much as EU-based funds.

Fall in equity market frictions since 2014

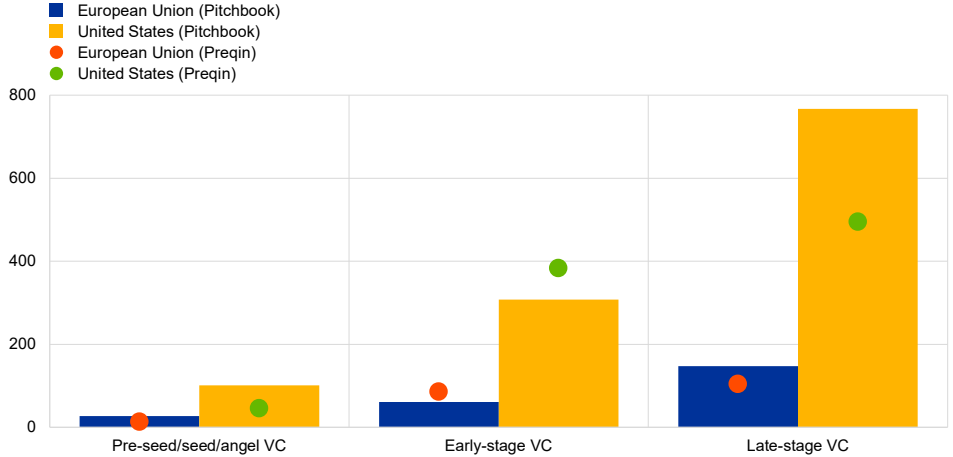
(2014-23, tariff-equivalent, percentage points)



Source: Anaya Longaric, P. et al. (2026), "Assessing cross-border integration of equity markets in the euro area: evidence from a gravity model", *Economic Bulletin*, Issue 3, ECB.
Note: Frictions are measured using a gravity model.

Size of venture capital funds in the United States and the EU

(EUR billions, average over the period 2019-2024)



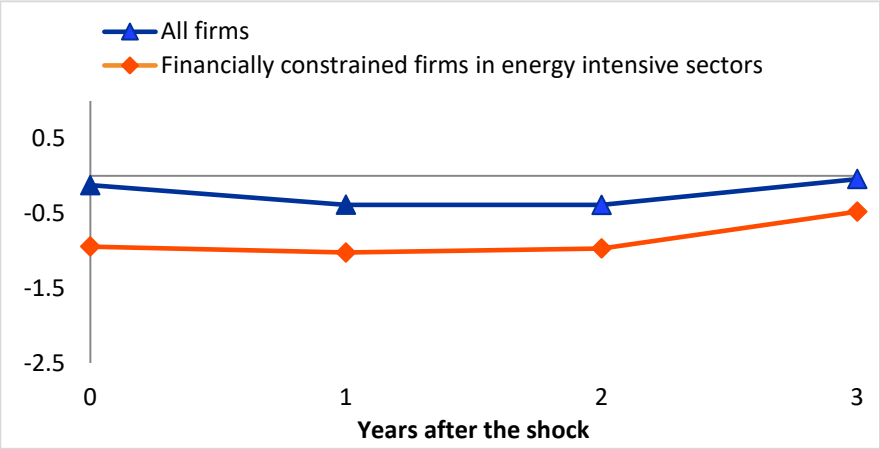
Source: Pitchbook and Capital IQ Preqin data. See also Baumann, A. et al. (2026), "Europe's venture capital gap and the financing of high-growth firms", *Economic Bulletin*, Issue 5, ECB.

…and less able to absorb shocks

- European firms cut investment in response to higher oil prices; US firms do not.
- Among firms most exposed to the COVID-19 shock, those with mostly domestic shareholders cut investment 20% more than peers with an international shareholder base.

Europe-US differential in the investment rate response

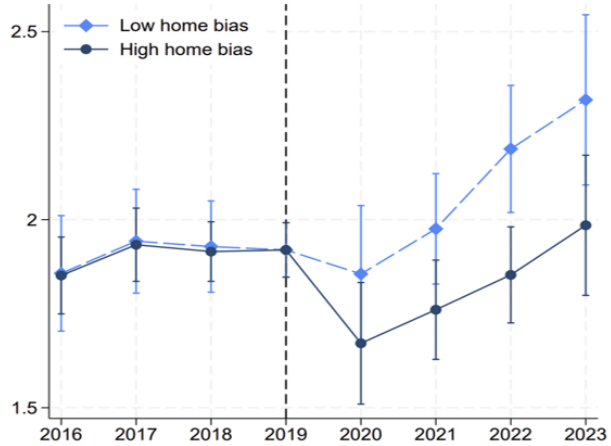
(percentage points)



Source: Anaya Longaric, P. et al. (2026), "Assessing cross-border integration of equity markets in the euro area: evidence from a gravity model", *Economic Bulletin*, Issue 3, ECB.
Note: Frictions are measured using a gravity model.

Effect of home bias on firm investment

(log-transformed values)



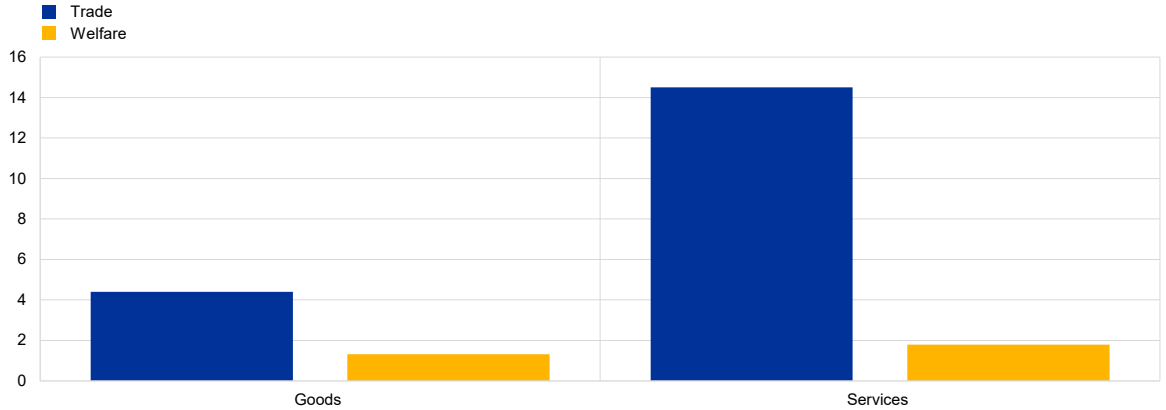
Source: Pitchbook and Capital IQ Preqin data. See also Baumann, A. et al. (2026), "Europe's venture capital gap and the financing of high-growth firms", *Economic Bulletin*, Issue 5, ECB.
Source: Banu, E. et al. (2026), "Does shareholder diversification enhance firm investment resilience? Evidence from the euro area", *Working Paper Series*, No 3296, ECB.

Integration is our best answer

- Reducing internal barriers to goods and services by just 2% could offset the projected impact of higher US tariffs on euro area GDP, estimated at around 0.7 percentage points over 2025 to 2027.

Welfare effects of decreasing Single Market trade barriers in 2025

(percentage change effect of decreasing trade costs)



Sources: OECD TiVA 2025, Antràs and Chor (2018) and ECB calculations. See also Bernasconi, R. et al. (2025), "What is the untapped potential of the EU Single Market?", *Economic Bulletin*, Issue 8, ECB.
Notes: Costs are assumed to decrease by 8 percentage points for goods and 9 percentage points for services. The EU aggregate welfare effect is calculated as a value added weighted average of effects obtained for Member States.

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