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European Supervisory Authorities

ESAs Tell Financial Institutions to Stay Alert to Stability Risks in Uncertain and Volatile Times

- The ESAs (EBA, EIOPA, ESMA) **Joint Committee's Autumn 2025 report** identifies **heightened risks** to the EU financial system driven by **intensifying geopolitical tensions, trade fragmentation, and evolving cyber and digital vulnerabilities**. Notably, the imposition of broad US tariffs and escalating global conflicts, particularly in Ukraine and the Middle East, have led to deteriorating economic forecasts and increased financial market volatility.
- Despite these challenges, **EU banks, insurers, pension funds, and investment funds have shown resilience**, maintaining robust capital buffers and profitability. EU banks reported stable profitability (RoE 10.5%) and strong capital (CET1 at 16.0%). Non-performing loan ratios remain low, although provisioning is expected to rise amid growing uncertainty. The insurance and IORP sectors also appear stable, supported by adequate capitalisation and relatively limited direct exposure to US-based clearing and infrastructure providers.
- **Investment funds experienced volatility**, particularly in equity and commodity segments, but no systemic issues emerged. However, the EU remains structurally

dependent on non-EU financial infrastructures and IT services, notably US-based CCPs and cloud providers, raising strategic concerns.

- The report stresses the **need for scenario planning**, especially around the economic implications of continued tariff escalation and increased EU defence spending. EU financial institutions are urged to incorporate **geopolitical risk** into operational and strategic planning, conduct **stress testing**, and monitor sectoral exposures, especially to trade-sensitive industries like manufacturing.
- **Cyber risk is underscored** as a systemic vulnerability, exacerbated by geopolitical instability. DORA implementation and supervisory vigilance are highlighted as key mitigants.
- While **crypto-asset market contagion remains limited**, growing links between traditional and digital finance warrant continued monitoring, particularly as US regulatory reforms unfold.
- The report recommends supporting the EU's **Savings and Investment Union**, progressing the Banking Union, and enhancing oversight of **non-bank financial institutions** (NBFIs) to sustain financial stability under prolonged uncertainty.

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