



TOPICS:

Banking System

SOURCE:

European Supervisory Authorities

ESAs Spring Risk Update Highlights Geopolitical Pressures and Rising Private Finance Risks

- The “Joint Committee Update on Risks and Vulnerabilities in the EU Financial System – Spring 2026” provides a **cross-sectoral assessment of financial stability risks** across EU banking, insurance and capital markets. It highlights **elevated uncertainty** driven primarily by **geopolitical** developments and structural shifts in **private finance**.
- The report identifies **geopolitical risk as the dominant systemic driver**, with events such as the Iran conflict, ongoing war in Ukraine and global trade tensions contributing to higher energy prices, inflationary pressures and weaker growth prospects. These factors have increased market volatility and heightened risks related to asset repricing, liquidity, and sovereign debt sustainability.
- Despite these risks, **EU financial institutions remain broadly resilient**. Banks maintain strong profitability (ROE ~10.7%) and robust capital positions (CET1 ~16.3%), while insurers and pension funds benefit from solid solvency and improved funding ratios. However, vulnerabilities persist, particularly in sovereign exposures, commercial real estate and leveraged segments.
- A key structural theme is the **rapid growth of private finance** (private equity and private credit).

Although still smaller than in the US, these markets have expanded significantly, introducing risks linked to illiquidity, opacity, leverage and limited transparency. Interconnections with banks - through funding, advisory roles and derivatives - create potential channels for contagion. Recent redemption pressures in US private credit funds underscore vulnerabilities under stress conditions.

- The report also notes **emerging cross-cutting risks**, including **cyber threats**, reliance on **third-country service providers** and potential **regulatory divergence** (e.g., US deregulation trends). **Crypto-asset** volatility and stablecoin growth present additional spillover risks to traditional finance.
- Policy recommendations focus on strengthening **risk preparedness and supervision**, including enhanced scenario analysis, prudent management of sovereign exposures, integration of geopolitical risks into governance frameworks and improved monitoring of non-bank financial intermediation and private markets.

