EUROPEAN CENTRAL BANK

EUROSYSTEM

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Risks from AI valuations, fiscal imbalances and geoeconomic tensions weigh on financial stability outlook

- Ambitious earnings expectations for AI firms leave financial markets vulnerable to abrupt adjustments
- Fiscal imbalances in major advanced economies could lead to global repricing of sovereign risk
- Euro area banks and non-banks exposed to geoeconomic tensions and AI, while strong profitability, capital and liquidity keep banking sector resilient

The outlook for euro area financial stability is being shaped by risks stemming from artificial intelligence (AI) valuations, fiscal imbalances and geoeconomic tensions, according to the November 2026 Financial Stability Review, which is published today by the European Central Bank (ECB).

“Risks to euro area financial stability remain elevated, given persistent geoeconomic uncertainty and growing exposure to AI,” said ECB Vice-President Boris Vujčić. “Banks are well placed to withstand shocks, while vulnerabilities are more pronounced in certain non-banks where risks are growing and macroprudential safeguards are less developed.”

The euro area economy has continued to demonstrate resilience despite an energy shock, trade frictions and extreme weather events. Prolonged energy supply disruptions and persistent trade policy uncertainty could, however, test this resilience.

Enthusiasm about the transformational potential of AI has driven strong gains in global equity markets, despite some recent volatility. Current valuations rely on ambitious earnings expectations which could yet be challenged by financing concerns or by competition from cheaper AI models. Investment in AI infrastructure is increasingly funded through debt, such that a potential change in sentiment could spread losses from equity markets to bond markets.

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In the euro area, elevated debt levels, growing sovereign borrowing needs and shifts towards more news-sensitive and leveraged investors in euro area sovereign bonds are increasing the risk of abrupt repricing episodes, although markets have continued to function in an orderly manner. Geoeconomic uncertainty, higher energy prices and weak economic growth could further strain public finances, allowing governments less room to respond to shocks.

Banks' and non-banks' exposures to AI financing and sovereign bonds leave them exposed to repricing risks. While bank asset quality remains sound, higher energy prices and weaker economic conditions could make it harder for households and firms to repay their debts. Closer links between banks and non-banks could spread and amplify shocks across the financial system.

The euro area banking sector is well positioned to absorb potential shocks, underpinned by strong profits, solid capital buffers and ample liquidity. Preserving bank resilience remains a key macroprudential priority, alongside addressing vulnerabilities related to liquidity and high levels of borrowing among some non-banks. Accelerating progress on the EU's savings and investments union will also be essential to support economic growth and competitiveness while preserving financial stability.

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