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Implementing a structured framework for monitoring and assessing geopolitical risk



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Geopolitical risk

A growing source of economic uncertainty

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- Geopolitical risk extends beyond armed conflict.
- It encompasses sanctions, tariffs, trade restrictions, strategic competition and other policy actions that can disrupt global trade, investment and economic activity.

→ How risk can transmit to economies and businesses

Supply chains	Energy & commodities	Inflation	Confidence	Investment	Financial markets
Disruption to global supply chains and trade routes	Higher volatility in energy and commodity prices	Stronger and more persistent inflationary pressures	Weaker business and consumer confidence	Delayed investment and strategic decision-making	Increased financial-market volatility

→ Recent examples

RUSSIA - UKRAINE	MIDDLE EAST	US - CHINA	TRADE POLICY	SHIPPING ROUTES
War	Conflict	Strategic rivalry	US tariffs and industrial policy	Disruptions to chokepoints

Assessing geopolitical risk in practice

Think broadly, act proportionately

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- Geopolitical-risk assessment should capture indirect effects early, while remaining proportionate and aligned with business objectives.

Define broadly

Look beyond armed conflict to economic, political and technological developments.

Connect the dots

Assume that distant events can create significant indirect consequences. **Follow second-round effects**

Trace transmission

Identify direct impacts, transmission channels and second-round effects. **Presume interconnections.**

Identify early

Maintain a wide lens and assess emerging risks before they become material.

Translate into action

Prioritise proportionate, feasible **actions** aligned with business objectives.

Design principles for an effective framework

What the monitoring framework must deliver

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DATA

Timely, reliable and maintainable sources

COVERAGE

Broad themes and transmission channels

CLARITY

Clearly defined risks, indicators and relationships

PRACTICALITY

Efficient to implement, update and explain

INSTITUTIONAL FIT

Proportionate to the Bank and ECB context

Balance

Sophistication with usability

Filter

Avoid information overload

Explain

Make movements and trends transparent

Own

Establish clear accountability

Framework architecture

- 36 indicators across seven domains provide a broad but practical view of geopolitical-risk transmission.
- No single indicator determines the assessment.
- The framework looks for consistent signals across domains to provide early warning of risks relevant to the Bank.

Variables forming part of the framework

9 Supply chains	7 Commodities	7 Uncertainty
6 Interest rates	3 Business conditions	3 Volatility
1 Inflation		

TOTAL = 36

Key indicators monitored

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Inflation
Headline inflation and its main drivers.

Interest rates
Yield-curve movements and key sovereign bond yields.

Commodities
Oil, gas, fuels, food, metals and fertiliser prices.

Overall uncertainty
Global uncertainty, geopolitical tensions and threat indices.

Volatility
Key financial-volatility indices used as market-stress signals.

Business conditions
Malta BCI and global manufacturing and services PMIs.

Supply chains
Supply-chain pressure, port calls, freight costs and commercial flights.

Assessment horizons and severity classification

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START OF YEAR

Change since the beginning of the year

LONG-TERM CONTEXT

Position relative to historical averages and trends

RECENT MOMENTUM

Month-on-month movement and latest observation

PERSISTENCE

Whether the movement is temporary or sustained

GREEN

Consistent with historical trends; no material deterioration

AMBER

Noticeable deterioration; closer monitoring required

RED

Significant deterioration or elevated stress

Assessment logic

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COMPARE

How does the latest reading compare with the normal trend?

CLASSIFY

Is the situation normal, adverse or significantly adverse?

SCORE

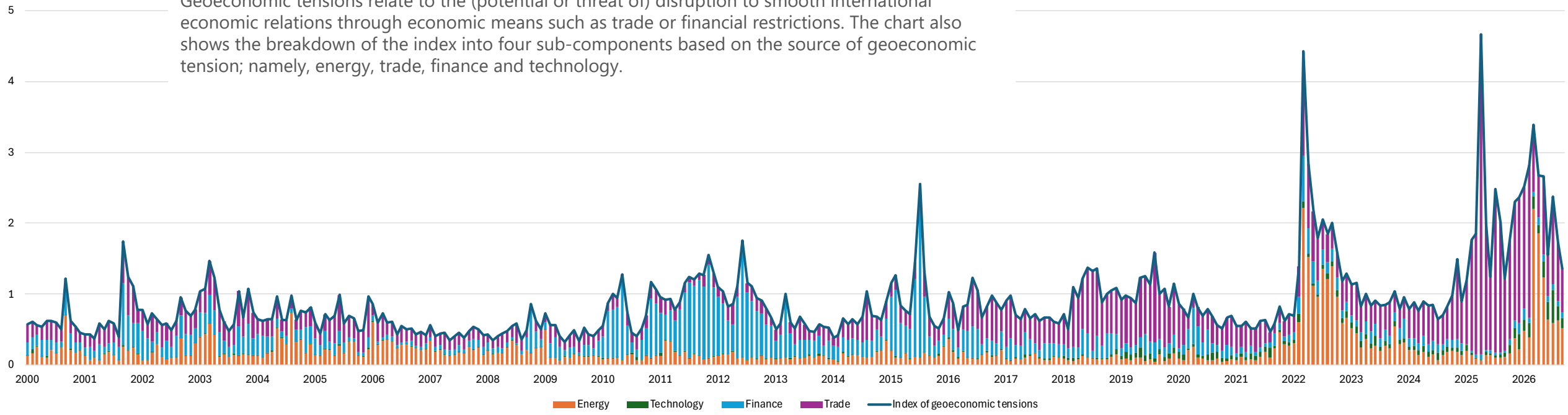
Apply severity score for the relevant NACE.

Indicator example (1)

Uncertainty

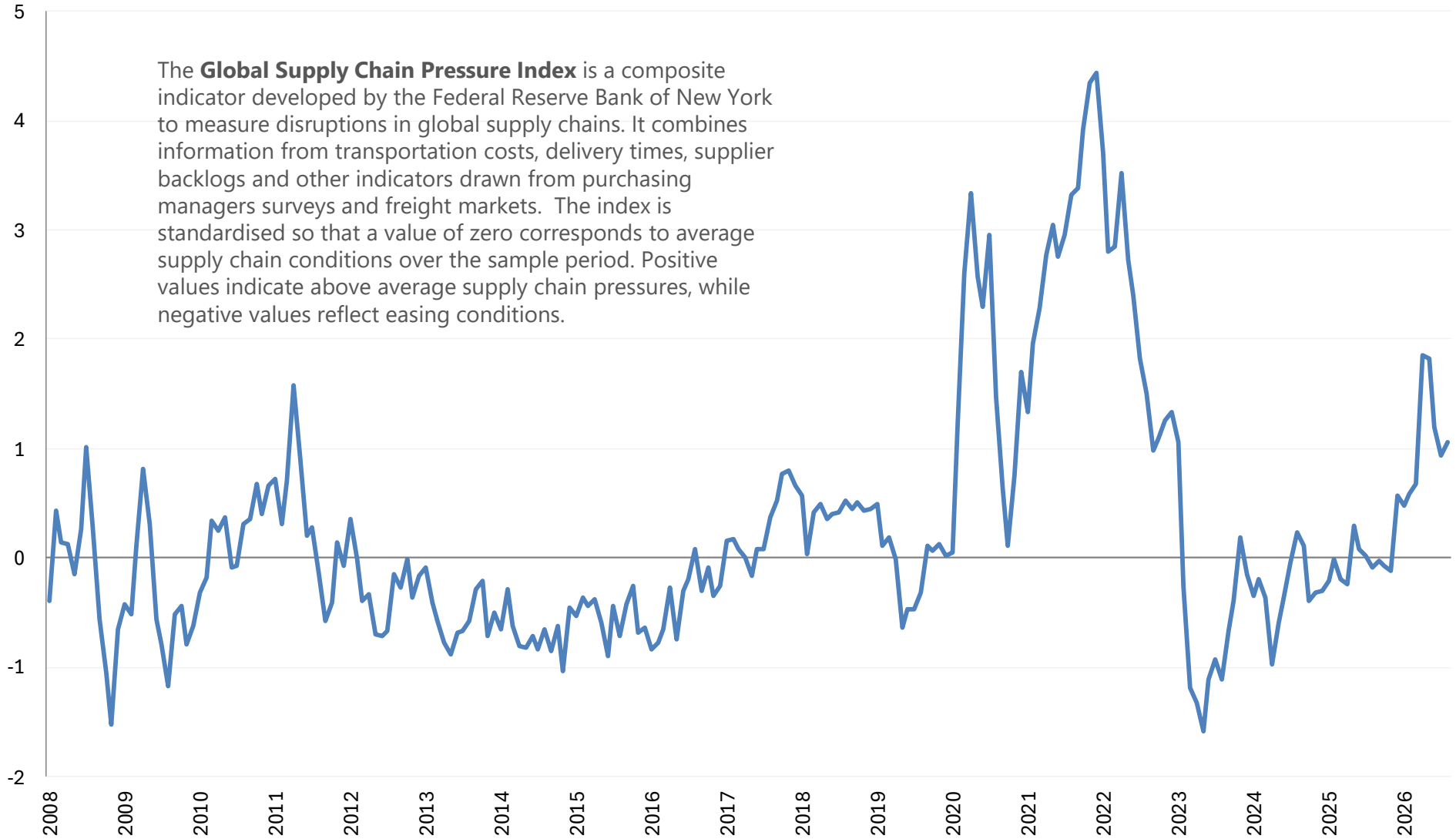
The Large-language-model Geoeconomic and Geopolitical Tensions (LGPT) index for the euro area (main line) is constructed using two large language models (LLMs) based on local language text (newspaper articles) in France, Germany, Italy and Spain. The index shows the number of newspaper articles discussing geoeconomic tensions as a share of the total number of articles.

Geoeconomic tensions relate to the (potential or threat of) disruption to smooth international economic relations through economic means such as trade or financial restrictions. The chart also shows the breakdown of the index into four sub-components based on the source of geoeconomic tension; namely, energy, trade, finance and technology.



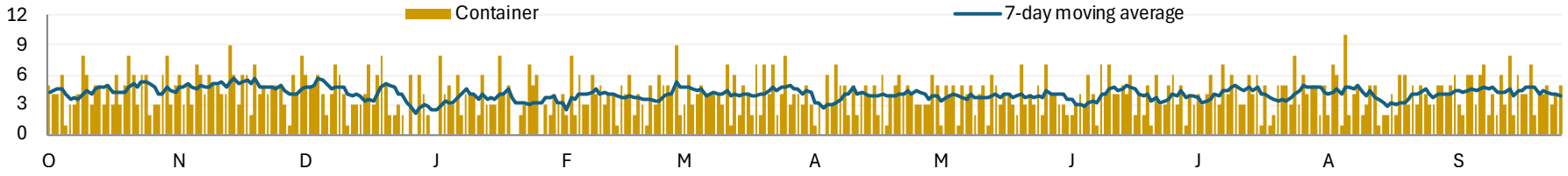
Indicator example (2)

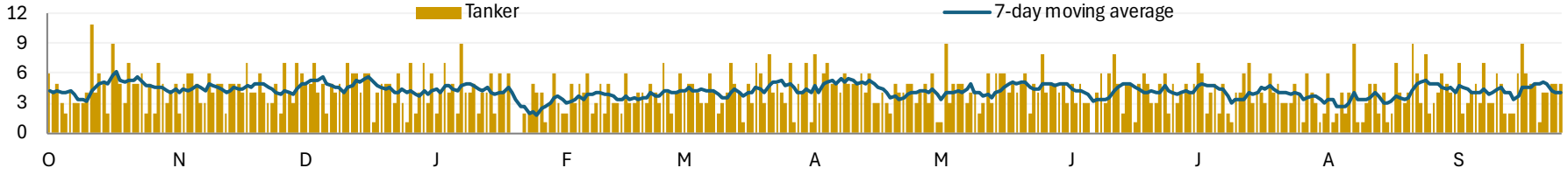
Global Supply Pressure Index

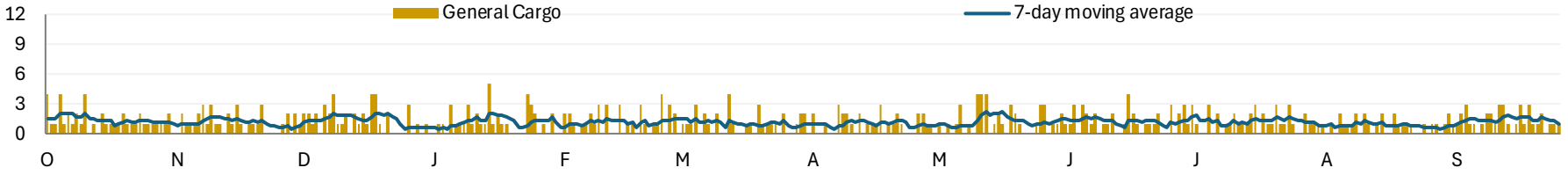


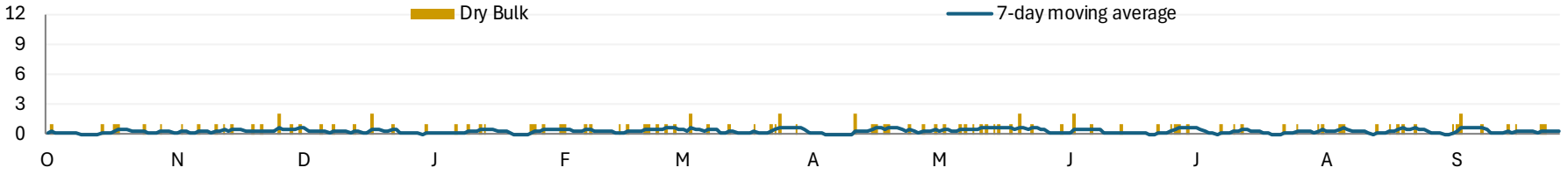
Indicator example (3)

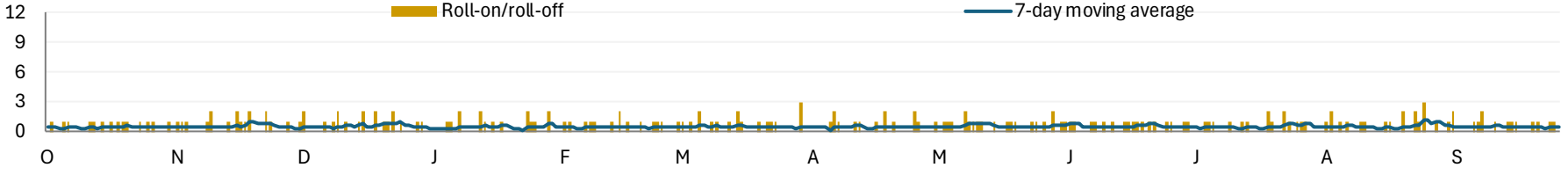
Port calls (Freeport and Grand Harbour)











The Port Watch indicators, produced by the International Monetary Fund using data from Automatic Identification System ship tracking, provide high frequency measures of global maritime trade activity. The series track daily port calls by vessel type.

Container shipping refers to vessels transporting goods packed in standardised containers, typically used for manufactured products, consumer goods and intermediate inputs.
Tankers carry liquid bulk cargoes, including crude oil, petroleum products, chemicals and liquefied natural gas.
General cargo vessels transport non containerised goods that do not fall under bulk shipping, including machinery, steel products and packaged goods.
Dry bulk shipping covers vessels carrying unpackaged bulk commodities such as coal, grains, iron ore and other raw materials.
Roll on roll off vessels are designed to transport wheeled cargo such as cars, trucks and trailers, commonly used in vehicle trade.

These indicators provide timely information on supply chain conditions, trade flows and shipping capacity utilisation. Sustained increases suggest stronger activity or easing bottlenecks, while declines may indicate disruptions or weaker global demand.

Indicator example (4)

Inflation (September 2026)

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Country	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy	Services
Lithuania	6.1	1.7	-3.4	0.8	32.9	6.9
Bulgaria	5.6	2.3	2.9	0.3	21.3	7.6
Cyprus	5.2	2.3	5.7	-3.3	21.0	7.1
Luxembourg	5.2	3.3	3.1	0.8	25.8	3.4
Greece	5.1	-0.7	0.7	0.0	25.4	6.3
Spain	5.0	1.5	5.5	1.6	22.0	4.2
Belgium	4.6	0.7	0.0	1.7	30.5	3.5
Croatia	4.3	0.0	0.7	-0.9	19.7	6.7
Italy	4.1	0.4	5.1	0.6	22.3	2.5
Ireland	3.8	0.7	1.0	0.9	15.3	4.0
EURO AREA	**3.8**	**0.4**	**4.0**	**1.1**	**18.8**	**3.2**
Slovenia	3.7	-0.2	2.9	0.1	18.3	4.0
Portugal	3.6	1.7	3.2	0.4	17.1	3.9
Austria	3.5	0.2	3.4	0.4	14.7	4.4
France	3.4	0.2	6.9	0.1	20.9	2.5
Germany	3.3	0.2	3.8	2.1	13.4	2.8
Slovakia	3.1	-2.1	-2.7	2.7	13.8	4.2
Netherlands	3.0	-1.3	-0.6	1.5	14.0	3.8
Estonia	3.0	0.9	-1.2	0.6	16.0	2.0
Latvia	2.9	-2.6	-4.8	1.1	16.7	4.3
Finland	2.6	2.0	4.0	0.8	12.8	1.6
MALTA	**2.4**	**1.6**	**4.1**	**0.8**	**0.0**	**3.4**

Translating geopolitical risk into potential sectoral impact

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- A monthly process converts geopolitical signals into a relative vulnerability assessment for each two-digit NACE division.
- The result indicates relative sector vulnerability and supports early warning.
- It is not a prediction of economic outcomes, and no single indicator determines the assessment.
- The methodology preserves sector-specific judgement while ensuring a transparent and repeatable escalation path.



From geopolitical signals to management action

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Routine monitoring	Enhanced monitoring	Detailed assessment	Management considerations
Indicators broadly consistent with historical conditions	Deterioration across multiple channels	Persistent or converging signals affecting material sectors	Potentially material weaknesses requiring action

Governance and escalation framework

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Indicators & interpretation

Exposures

Sector intelligence (such as sector vulnerability, borrower resilience, collateral quality)

Oversight and challenge

- A cross-functional process converts monthly monitoring into proportionate escalation and timely risk-management action.
- Bring together economic, financial, commercial and risk-management perspectives.
- Review the monthly dashboard and sectoral assessment.
- Distinguish temporary movements from emerging risks.
- Recommend enhanced monitoring or further analysis.
- Document conclusions, actions and ownership.
- Periodically review and refine the framework.

A structured framework turns uncertainty into informed action

- Geopolitical events cannot be predicted precisely, but their economic and financial transmission can be monitored systematically.
- By identifying converging signals, connecting them to sector vulnerability and Bank exposure, and escalating proportionately, the framework supports earlier and better-informed decisions.

Monitor the channels

Connect signals to exposure

Escalate when evidence converges


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