

## Call for Special Session

### Geopolitical risk and economic fragmentation: implications for financial stability

**Chair: Florian Neagu (Bucharest University of Economic Studies, National Bank of Romania), Matei Kubinschi (National Bank of Romania)**

Rising geopolitical frictions and the (re)shoring of production are accelerating economic fragmentation across trade, finance, and technology. These shifts can weaken traditional risk-sharing mechanisms, disrupt cross-border capital allocation, and amplify volatility in asset prices and exchange rates. Fragmented payment systems and sanctions regimes may erode market depth and collateral mobility, increasing liquidity premia and the likelihood of fire-sale dynamics during stress. At the macro level, tighter trade and investment networks can lower potential growth and raise inflation persistence, complicating the monetary-fiscal policy mix and heightening sovereign-bank feedback loops. Financial stability frameworks therefore need to incorporate geopolitical tail risks, exposure to concentrated value chains, and network contagion across markets and jurisdictions. Promising avenues include enhanced cross-border data sharing for macroprudential surveillance, stress tests that model sanction and fragmentation shocks, and policies that preserve critical market infrastructures while accommodating strategic autonomy goals. Empirical and theoretical contributions that quantify these channels - or evaluate the effectiveness of capital and liquidity tools when cross-border substitutability declines - are especially welcome.

**JEL codes:** F51; F52; F36; E44; G01

**Keywords:** geopolitical risk; economic fragmentation; financial stability; cross-border capital flows; macroprudential policy

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