Geopolitical Risk and Inflation Heterogeneity in the Euro Area

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The Role of Protectionism and Fragmentation in Macroeconomics

Summary

- Studies how **geopolitical risk shocks** affect **inflation** across euro-area countries.
- Separates **geopolitical cost-push shocks** from **macro shocks** using high-frequency movements in GPR and inflation compensation.
- Finds that **cost-push shocks**:
  - pass through from import to producer and consumer prices;
  - generate larger inflation in countries with greater extra-EA exposure;
  - are dampened by greater intra-EA sourcing.
- Rationalizes these results in a **multi-country monetary union model**.

Strengths

- Addresses a highly policy-relevant question for the euro area and monetary policy.
- Innovative identification that distinguishes **inflationary** from **disinflationary** geopolitical shocks.
- Clearly traces cost pressures along the price chain: **imports** $\rightarrow$ **producer prices** $\rightarrow$ **consumer prices**.
- Strong integration of empirical evidence and theory to explain cross-country inflation heterogeneity.

Comment: Geopolitical risk perceptions matter

- Shock identification relies on a GPR measure constructed from **Anglo-Saxon media**.

- Importance of local-language sources for capturing **domestic perceptions of geopolitical risk** (Alonso-Álvarez et al., 2025; Bondarenko et al., 2024, 2025)

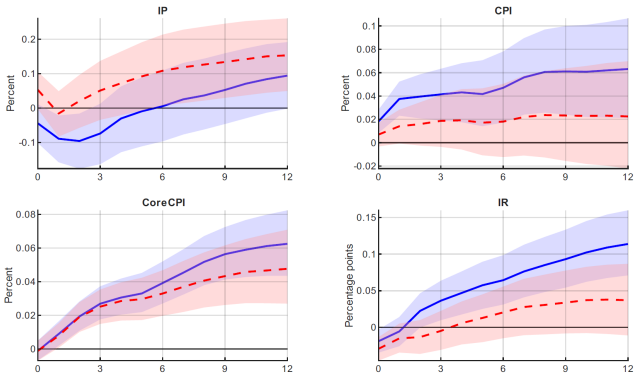


Figure 1: Macro effects of GPR shocks on the EA (Bondarenko et al., 2025)

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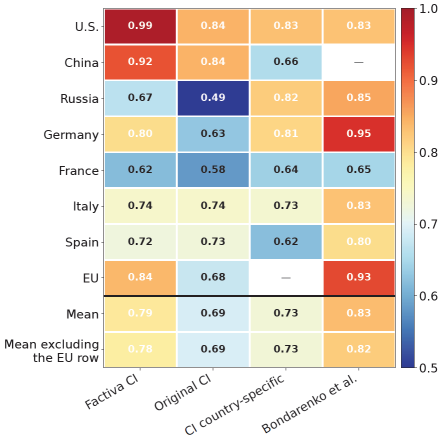


Figure 2: Correlations between GPR indices (Alonso-Álvarez et al., 2025)

Comment: Geopolitical risk perceptions matter

- ⋆ Rely on alternative **local GPR** measures for the EA: Alonso-Álvarez et al., 2025; Bondarenko et al., 2025.

- 34 countries, 15 languages, 78% of global GDP (*General and Bilateral Geopolitical Risk (GPR) Indices for 34 Economies*).

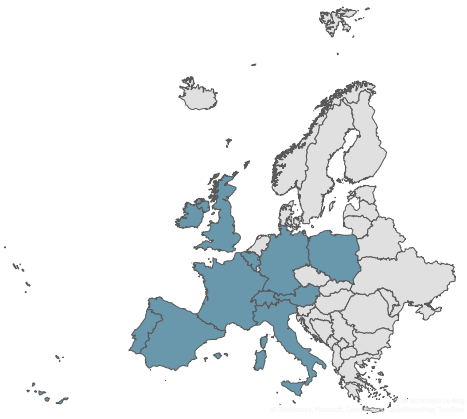


Figure 3: BdE Global Database of GPR Indices - EA

Comment: Nominal rigidty channel in the data

- The model attributes inflation heterogeneity to five conceptual channels.
- However, the empirical analysis excludes **heterogeneity in nominal rigidity**.
  - Yet country-specific price-adjustment frequencies are already used in the calibration.

⋆ Test whether responses vary with nominal rigidity:

$$\varepsilon_t^{CP} \times Rigidity_i$$

and, closer to the model mechanism,

$$\varepsilon_t^{CP} \times Exposure_{i,t-1} \times Rigidity_i.$$

Comment: How important is each channel in the data?

- The model provides a **quantitative ranking** of the different sources of inflation heterogeneity.
  - External exposure explains substantially more dispersion than nominal rigidity.
  - Intra-EA sourcing reduces inflation dispersion.

- But there is **no analogous decomposition using the empirical estimates**.

⋆ Use the panel-LP coefficients to construct **predicted country responses** and recompute their dispersion after equalizing each characteristic in turn.

Idea: Geographical origin of GPR shocks

- Alonso-Álvarez et al. (2025) show that the **source of geopolitical risk matters** for macroeconomic effects.

★ Could identify the geographical source of each GPR event and interact it with countries' **source-specific trade exposure**.

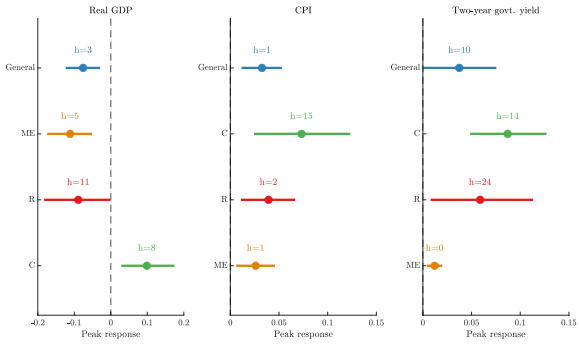


Figure 4: Macro effects on directed GPR shocks for the U.S.

To sum up

- Very interesting and policy-relevant work on the inflationary effects of geopolitical risk shocks.
- Important result: **external exposure is a key driver of inflation heterogeneity** across euro-area countries.
- Provides a valuable perspective on the **Single Market as a buffer** against external cost pressures.

Thank you!

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References

- Alonso-Álvarez, I., Diakonova, M., & Pérez, J. J. (2025). ***Rethinking GPR: The Sources of Geopolitical Risk*** **(Documento de Trabajo No. 2522).** Banco de España.
- Bondarenko, Y., Kang, N., Lewis, V., Rottner, M., & Schüler, Y. (2025). ***Geopolitical risk in the euro area: Measurement and transmission*** **(tech. rep.).** (Working paper, December 2025). Deutsche Bundesbank.
- Bondarenko, Y., Lewis, V., Rottner, M., & Schüler, Y. (2024).**Geopolitical risk perceptions.** *Journal of International Economics*, *152*, 104005. https://doi.org/10.2139/ssrn.4441353