EUROPEAN CENTRAL BANK

EUROSYSTEM

The Impact of Geopolitical Risk on Consumer Expectations and Spending

24th Conference on Research on Economic Theory and Econometrics

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Yuriy Gorodnichenko *(UC Berkeley)*, Dimitris Georgarakos *(ECB)*, Olivier Coibion *(UT Austin)*, Geoff Kenny *(ECB)*

Disclaimer

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Wars and Macroeconomy

"*A **long-lasting war** in Ukraine **remains a significant risk**. **Confidence could deteriorate** further… Both consumer and business confidence have fallen rapidly, which is also weighing on the economy.*" Monetary Policy statement, 27 October 2022

*"Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, **remain a major source of uncertainty**. **Sentiment could also be lifted** and activity spurred **if geopolitical tensions diminished**."* Monetary Policy statement, 11 September 2025

The **1990-91 recession** in the U.S. is sometimes attributed to a **decline in consumer confidence** following the Iraqi invasion of Kuwait (Blanchard 1993)

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Question

What is the impact of the prolongation of war in Ukraine and conflict in the Middle East on euro area consumers' macro expectations, own financial sentiment, and spending plans?

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Consumer Expectations Survey

- Monthly panel from the ECB Consumer Expectations Survey (CES); eleven largest EA countries; ~ 19,000 households

- Rich information on expectations and choices (see Georgarakos and Kenny, JME 2022; ECB 2021)

- **Special modules on geopolitical issues** in September 2024, December 2024, March 2025, and September 2025

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Consumer Expectations Survey

Latest results

Inflation

Consumers' inflation expectations for the 12 next months.

More on inflation

Housing & credit

Consumers' home price growth expectations over the next 12 months.

More on housing and credit

Income & consumption

Consumers' expectations for their net income growth over the next 12 months.

More on income and consumption

Labour & growth

Consumers' expectations for the unemployment rate over the next 12 months.

More on labour and growth

https://www.ecb.europa.eu/stats/ecb_surveys/consumer_exp_survey/html/index.en.html

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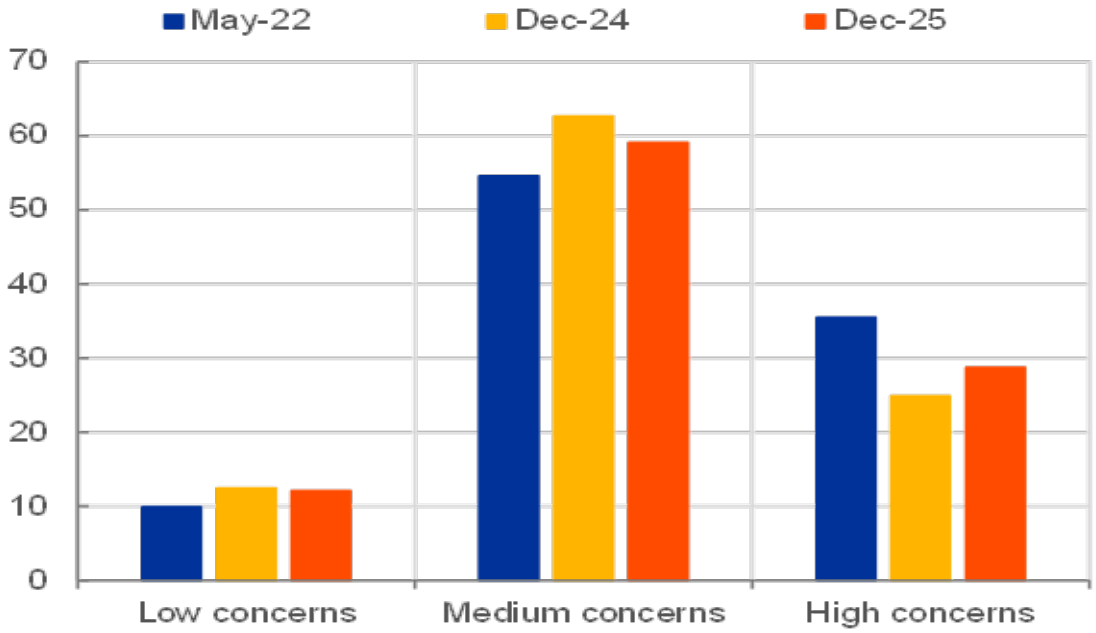
Concerns about the impact of war on own financial situation



- Wars weigh on consumer sentiment
- 35% of consumers report that they are quite concerned (8+) in May 2022 and 29% in December 2025

*How concerned are you about the impact of [**war in Ukraine** / the **current geopolitical events**] on the **financial situation of your household**, over the next twelve months?*

0-10 scale

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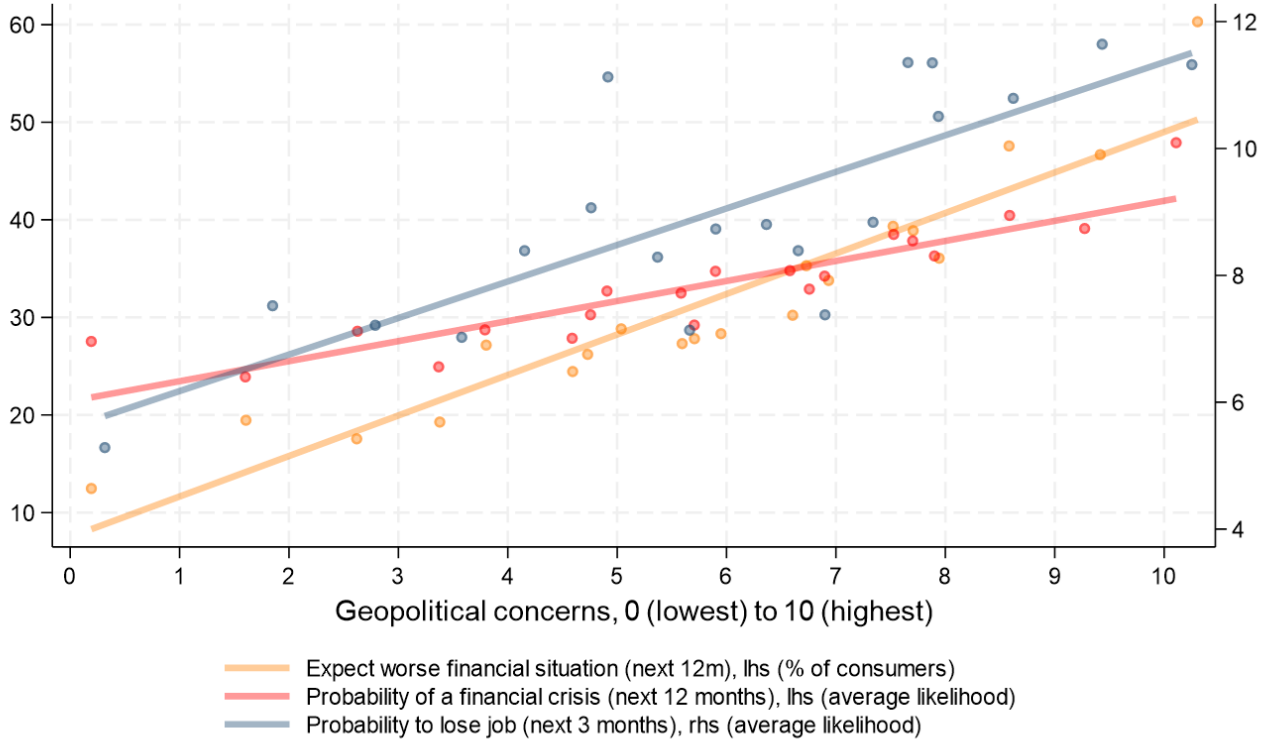
Correlations of geopolitical concerns with macro and micro outlook



- **Cross-section**: geopolitical concerns are **positively correlated** with a bad macro- and microeconomic outlook

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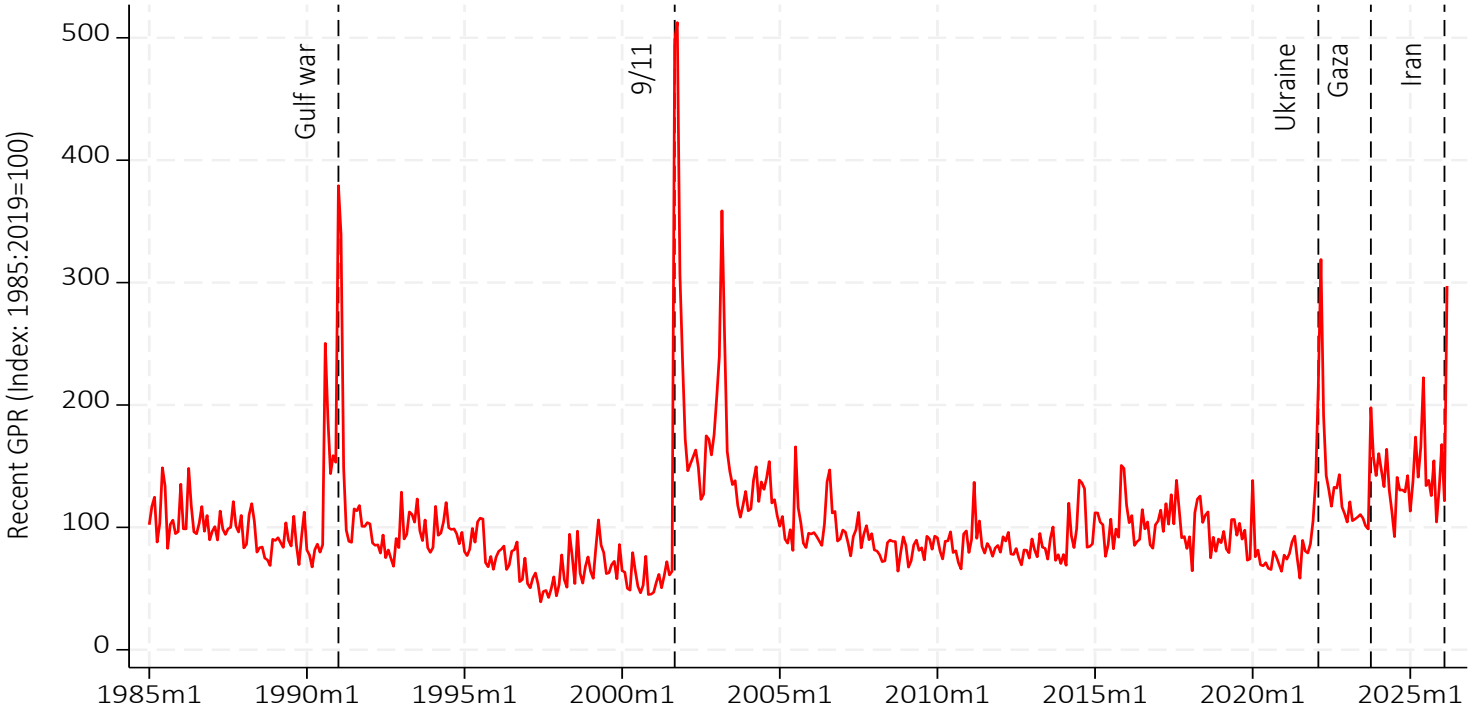
Geopolitical Risk (GPR) Index



Caldara and Iacoviello (2022): measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions

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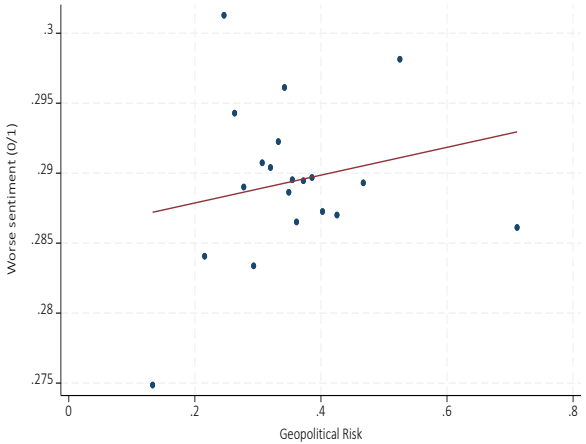
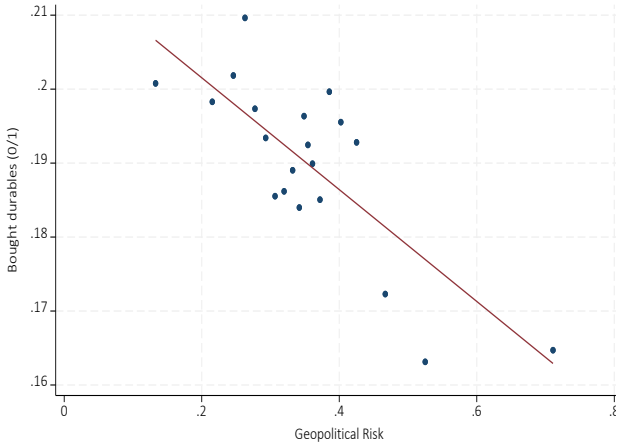
Correlations of GPR with Sentiment and Spending

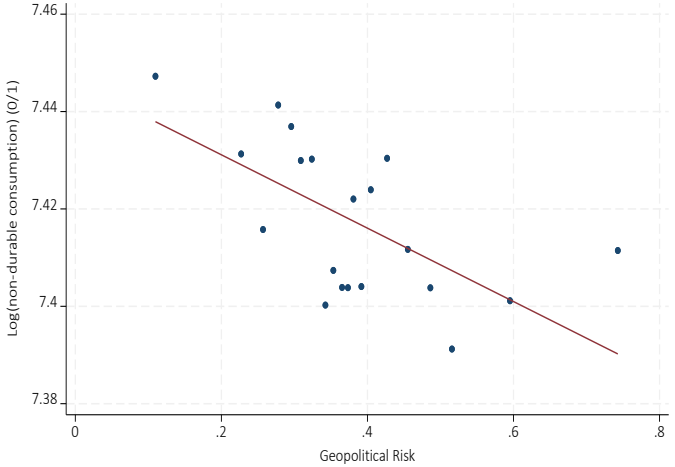
Worse sentiment



Bought durables (0/1)



log(non-durables)



- **Individual FE regressions** of sentiment/ spending on GPR index (BE, FR, DE, IT, NL, PT, ES, FI), varying by interview month
- **Time-series**: GPR **correlates negatively** with sentiment and spending

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Empirical challenge

Establishing a **causal** link running from geopolitical risk to consumer expectations, sentiment and subsequent consumption is not easy:

- **Many things happen** at the same time
- Not obvious **how to measure** consumers (perceived) geopolitical risk and its **mapping** into beliefs
- Wars have a **lot of media coverage** ($\Longrightarrow$ RCTs with information treatments are hard)
- **Mechanisms** are hard to establish with aggregate/ time-series data

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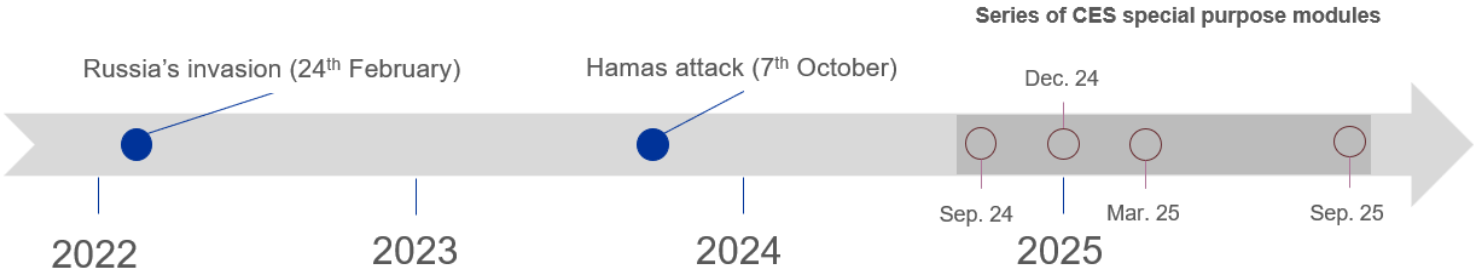
A scenario-based approach

- Use **micro-level** survey evidence
- Ask hypothetical **scenario questions** as an alternative way to **identify causality**
  - ask survey respondents scenarios that they can conceptualize in order to evaluate policies, Shapiro and Slemrod (2003); Stantcheva (2024)
- Link an *'optimistic'*, *'medium'* and *'pessimistic'* scenario of war duration to consumer expectations and spending plans
  - 'optimistic' will end in 3 months
  - 'medium' will end in ~ 1 year
  - 'pessimistic' will end in 3 years+



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Scenario Question

Suppose that the war in Ukraine and conflict in the Middle East continue in the next 3 years (and possibly beyond).

How do you think this will affect (if at all) each of the following in the country you currently live in, **over the next 12 months**?

Prices of goods and services

Decrease a lot	Decrease a little	No effect	Increase a little	Increase a lot

Your household's total spending on goods and services

Economic growth

Your household's financial wellbeing

- Other expectations (*conflict with other countries*, *trade*, *government debt*, *taxes*, *unemployment*, *stock prices*)
- Collect **qualitative** responses (for inflation, growth and nominal spending **also quantitative**)

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‘Optimistic’ scenario (Dec 2024 wave)

Suppose that the war in Ukraine and conflict in the Middle East end by March 2025.

How do you think this will affect (if at all) each of the following in the country you currently live in, **over the next 12 months**?

Prices of goods and services

Decrease a lot	Decrease a little	No effect	Increase a little	Increase a lot

Your household’s financial wellbeing

Your household’s total spending on goods and services

Economic growth

‘Pessimistic’ scenario (Dec 2024 wave)

Suppose that the war in Ukraine and conflict in the Middle East continue in the next 3 years (and possibly beyond).

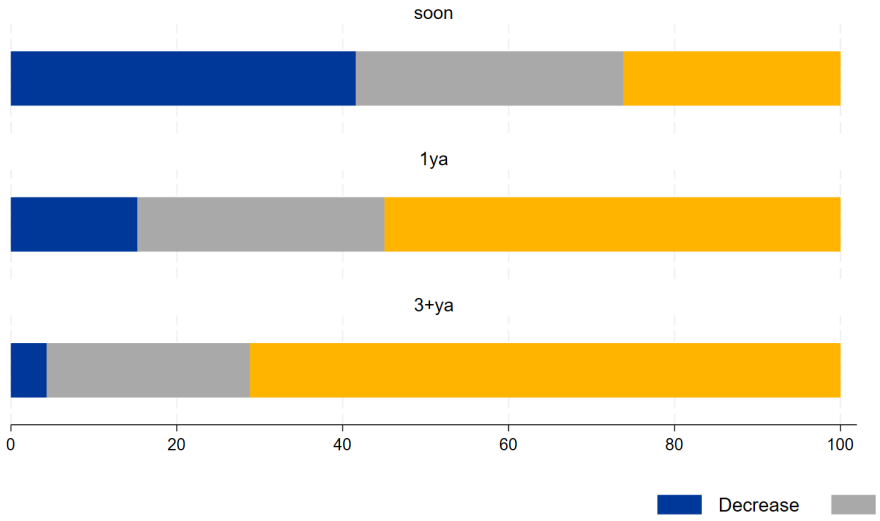
How do you think this will affect (if at all) each of the following in the country you currently live in, **over the next 12 months**?

	Decrease a lot	Decrease a little	No effect	Increase a little	Increase a lot
Prices of goods and services					
Your household’s total spending on goods and services					
Economic growth					
Your household’s financial wellbeing					

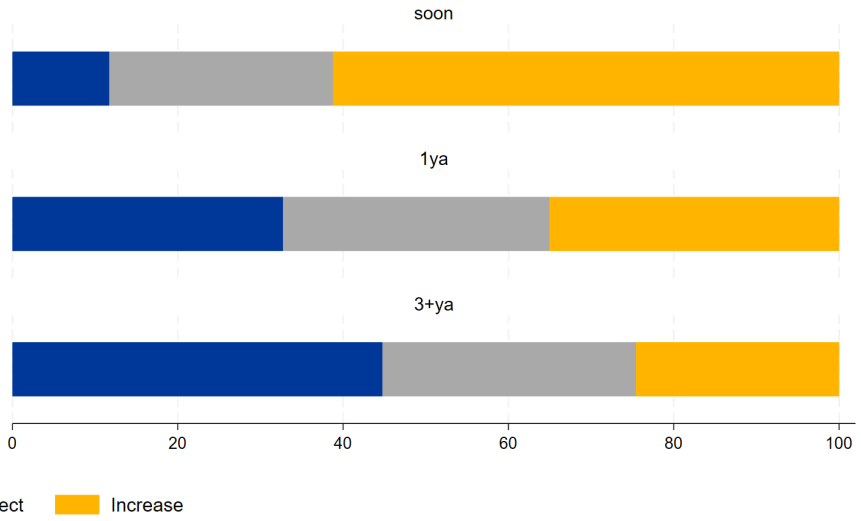
Randomisation is key: the main underlying factor driving the average difference in responses by group reflects the varying duration of the conflict and not differences in respondents’ characteristics, which net out on average.

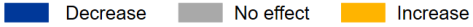
Prolonged conflict and expectations about trade and country relationships

Conflict with other countries
(percent of consumers)



Trade with other countries
(percent of consumers)





Notes: ECB Consumer Expectations Survey (CES), December 2024. Population-weighted data.

- Households perceive prolonged conflict as **harmful for foreign affairs** and **trade** with other countries

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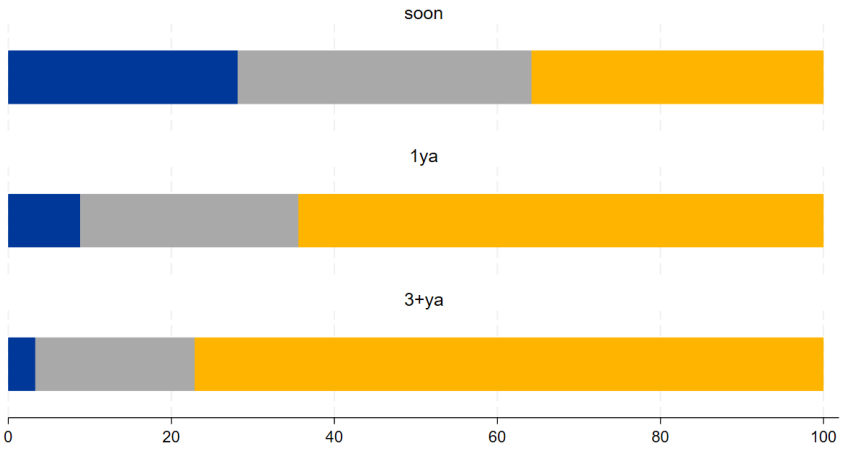
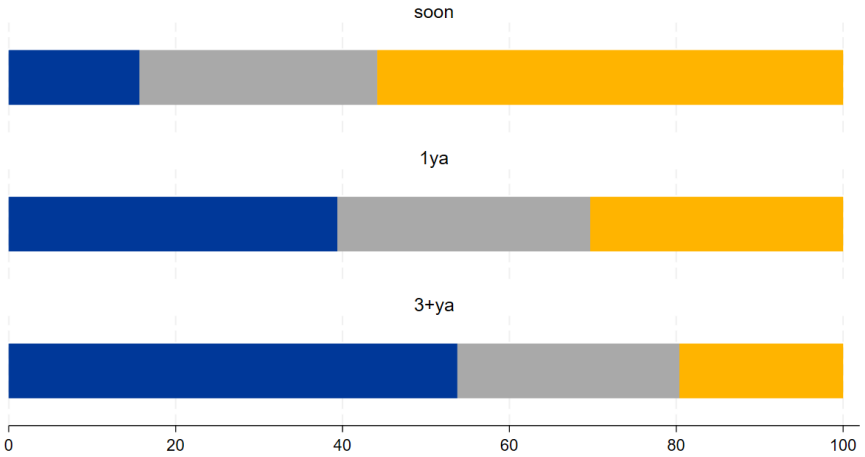
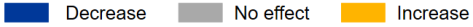
Prolonged conflict and expectations about inflation and growth

Prices of goods and services
(percent of consumers)



Economic growth
(percent of consumers)





Notes: ECB Consumer Expectations Survey (CES), December 2024. Population-weighted data.

- Households perceive prolonged conflict as **stagflationary**: will lead to increases in prices and reduction in growth

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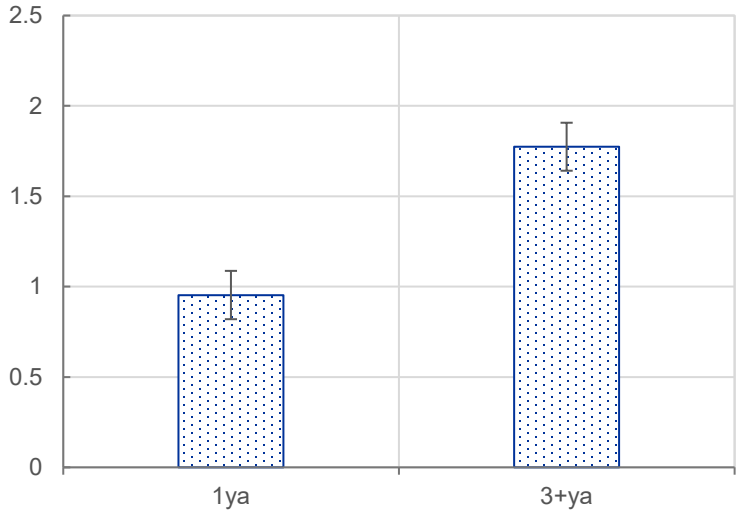
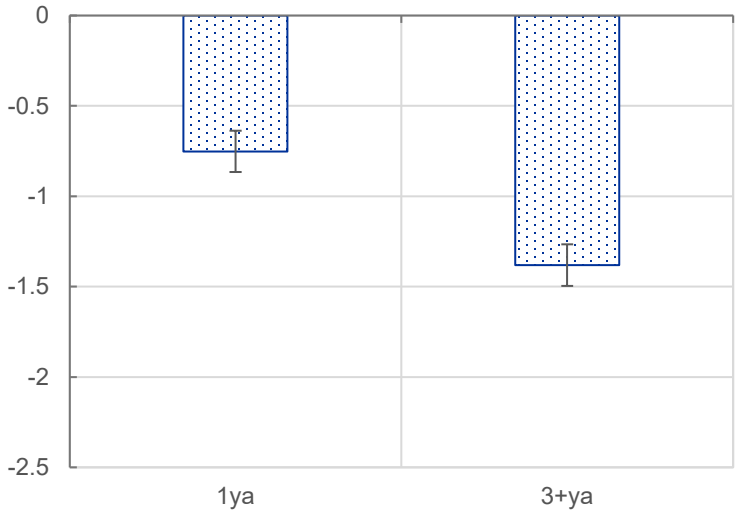
Quantitative impact of prolonged conflict on expectations about inflation and growth

Prices of goods and services
(OLS regression coefficient)



Economic growth
(OLS regression coefficient)



Notes: ECB Consumer Expectations Survey (CES), September 2025. The regressions also include socio-demographic control variables and country dummies.

- **Quantitatively significant effects** of prolonged conflict on increasing inflation and decreasing growth

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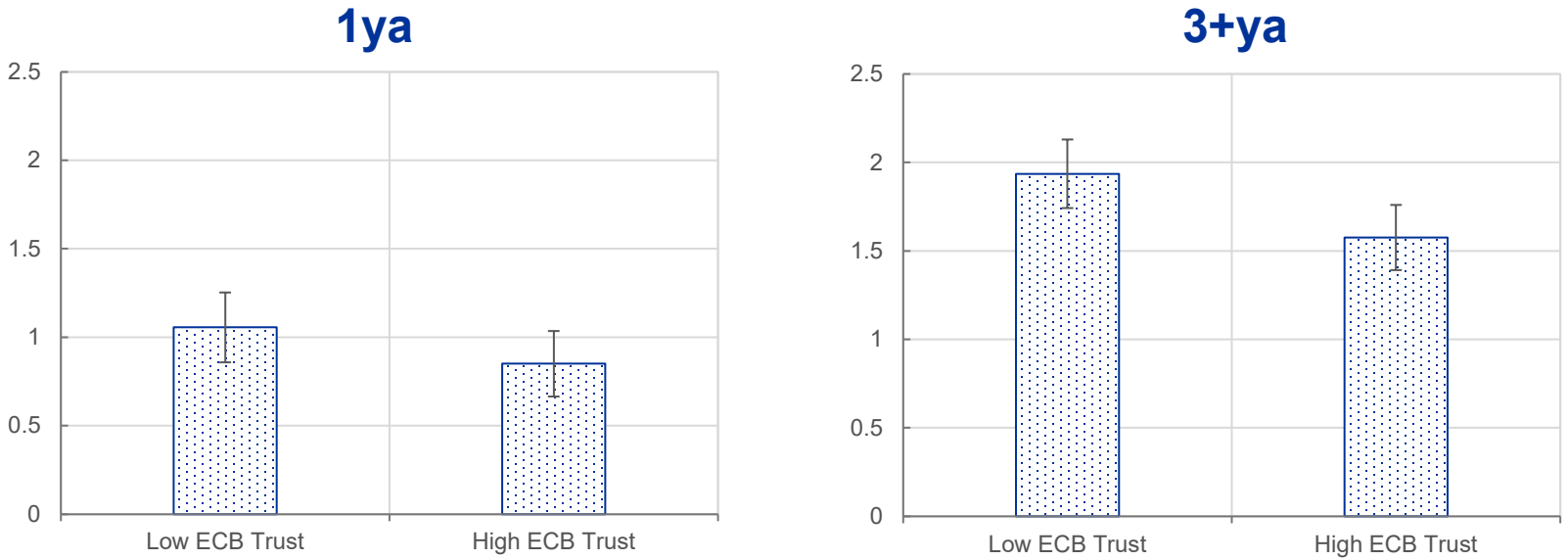
Quantitative impact of prolonged conflict on expectations about inflation by ECB trust

Prices of goods and services

(OLS regression coefficient, by horizon relative to baseline: “soon”)



Notes: ECB Consumer Expectations Survey (CES), September 2025. The regressions also include socio-demographic control variables and country dummies. Each month consumers are asked how much they trust the European Central Bank on a scale from 0 to 10. We classify consumers as high trust if they report trust higher than the median (6).

- Relatively stronger effects on inflation among the low ECB trust

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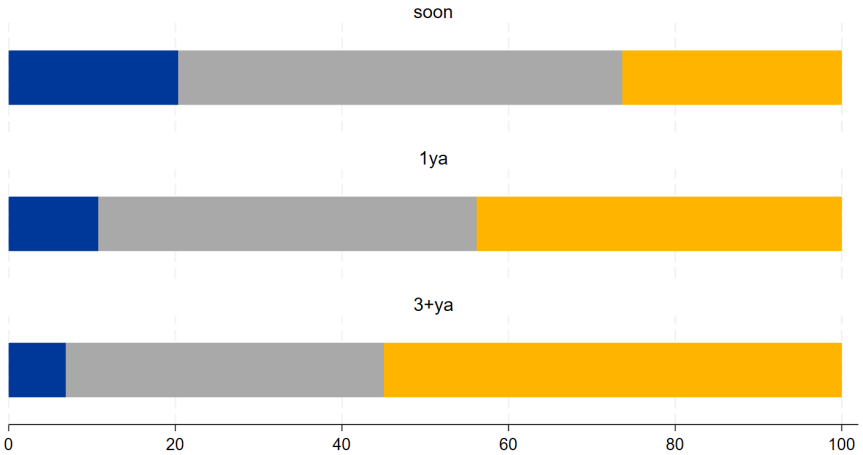
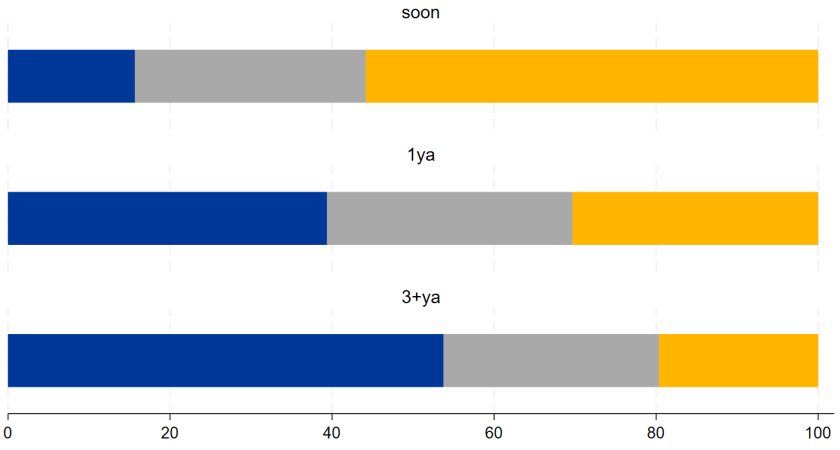
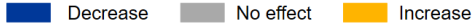
Prolonged conflict and expectations about unemployment and stock prices

Unemployment
(percent of consumers)



Stock Prices
(percent of consumers)





Notes: ECB Consumer Expectations Survey (CES), December 2024. Population-weighted data.

- Households perceive prolonged conflict as **detrimental** for **employment** and **stock prices**

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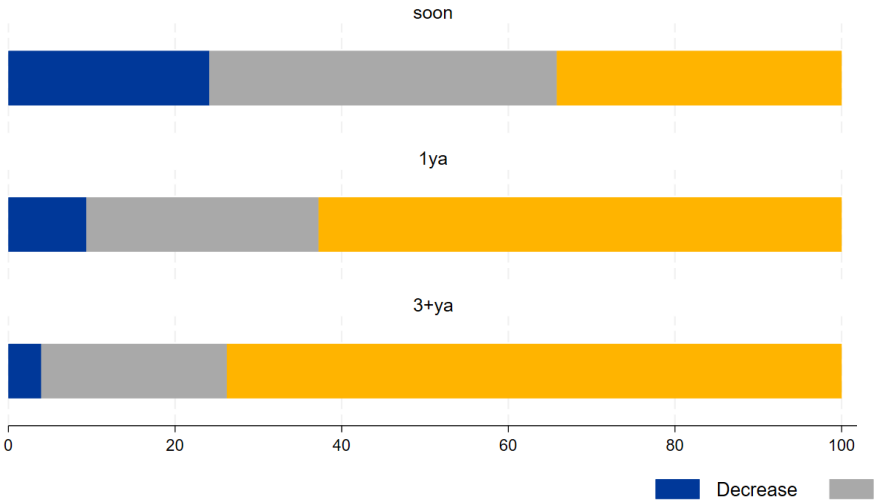
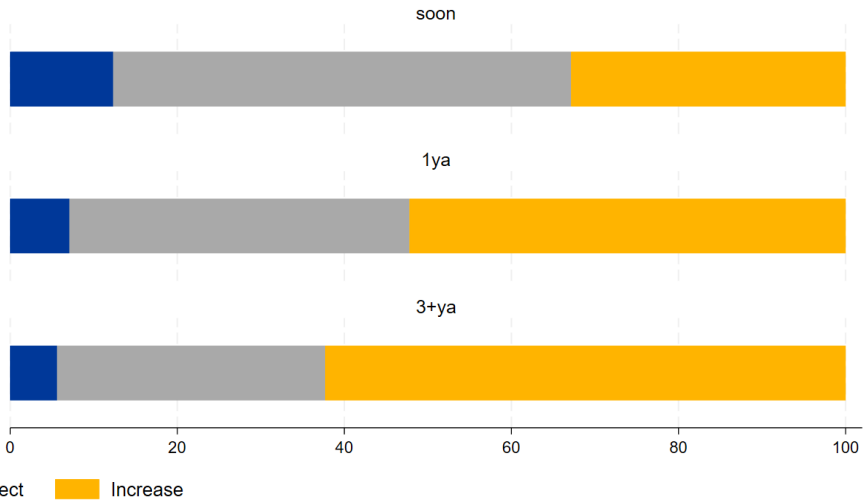
Prolonged conflict and expectations about Government debt and Taxes

Government debt
(percent of consumers)



Taxes
(percent of consumers)



Notes: ECB Consumer Expectations Survey (CES), December 2024. Population-weighted data.

- Households perceive prolonged conflict as **deteriorating government budgets**: will lead to higher levels of government debt, even while simultaneously expecting taxes to rise

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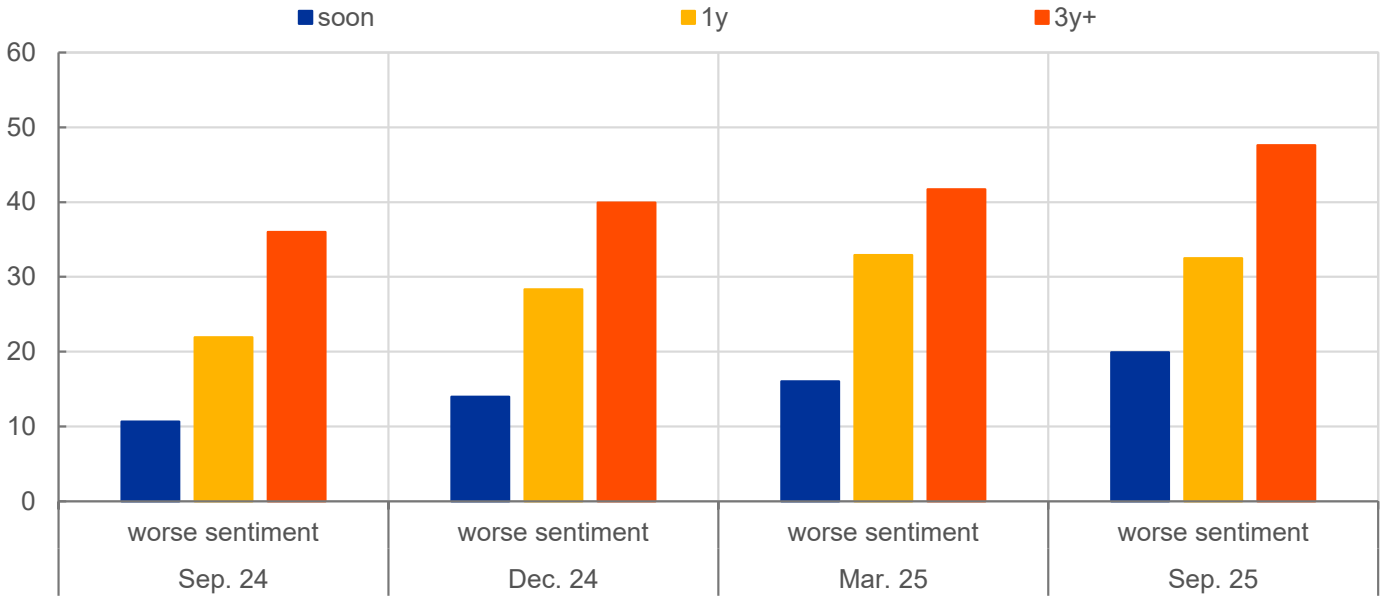
From Macroeconomic Outlook to Financial Sentiment



Notes: ECB Consumer Expectations Survey (CES).

- Prolonged conflict will lead to **worsening financial sentiment** and **more so over time**

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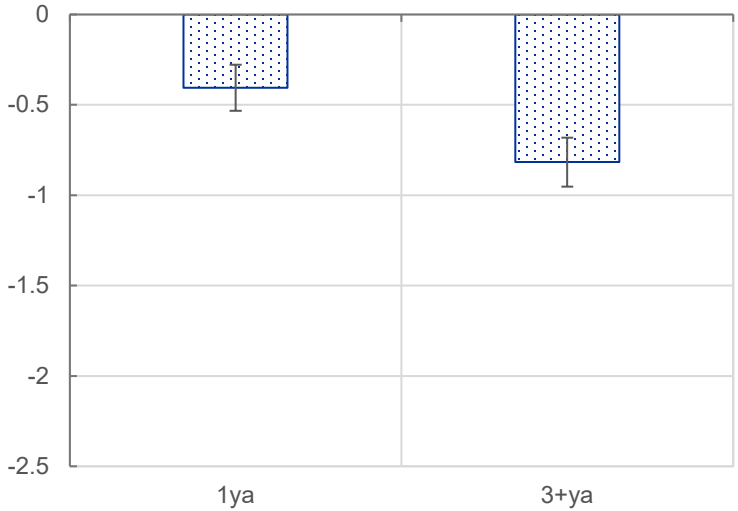
From Macroeconomic Outlook to Spending

Expected real consumption

(OLS regression coefficient)



Notes: ECB Consumer Expectations Survey (CES), September 2025. The regression also includes socio-demographic control variables and country dummies.

- Prolonged conflict will inhibit spending

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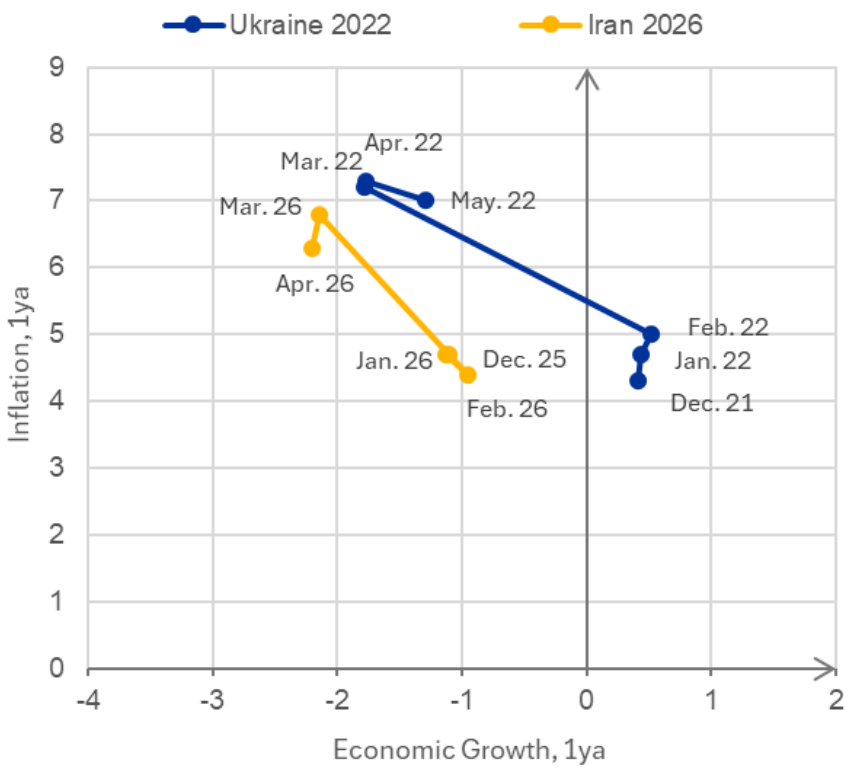
Inflation and growth expectations around the onset of **two wars**



Stagflationary, highly **responsive** beliefs following the outbreak of wars

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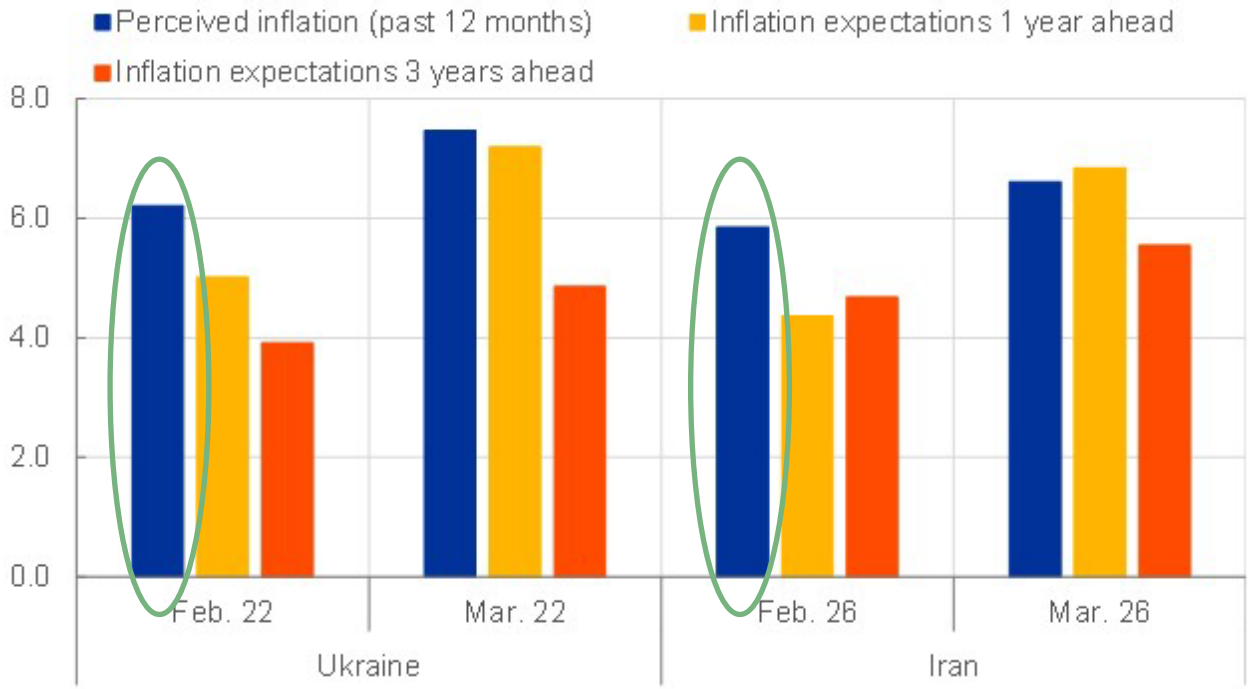
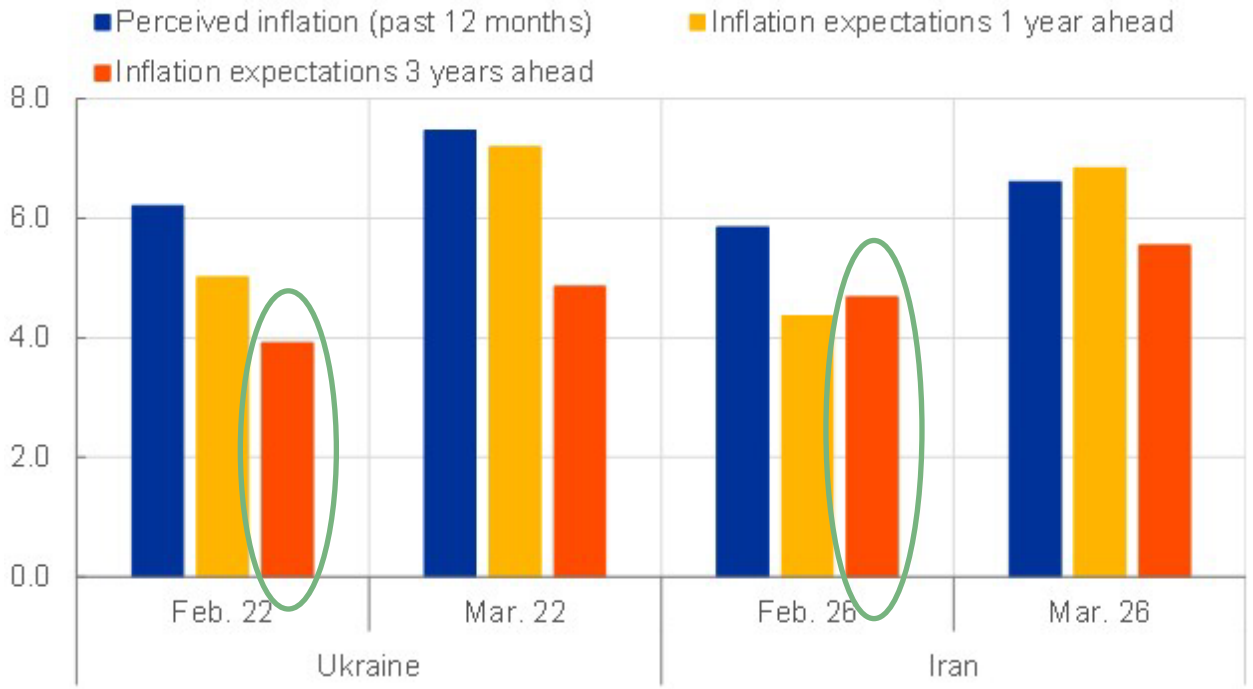
Inflation perceptions, short- and medium-term expectations around the onset of two wars



Perceptions in Feb. 2026 (*HICP: 1.9%*) still elevated relative to Feb. 2022 (*HICP: 5.9%*)

Medium-term revisions in Feb. 2026 start from a higher level relative to Feb. 2022

Inflation perceptions, short- and medium-term expectations around the onset of two wars



Perceptions in Feb. 2026 (*HICP: 1.9%*) still elevated relative to Feb. 2022 (*HICP: 5.9%*)

Medium-term revisions in Feb. 2026 start from a higher level relative to Feb. 2022

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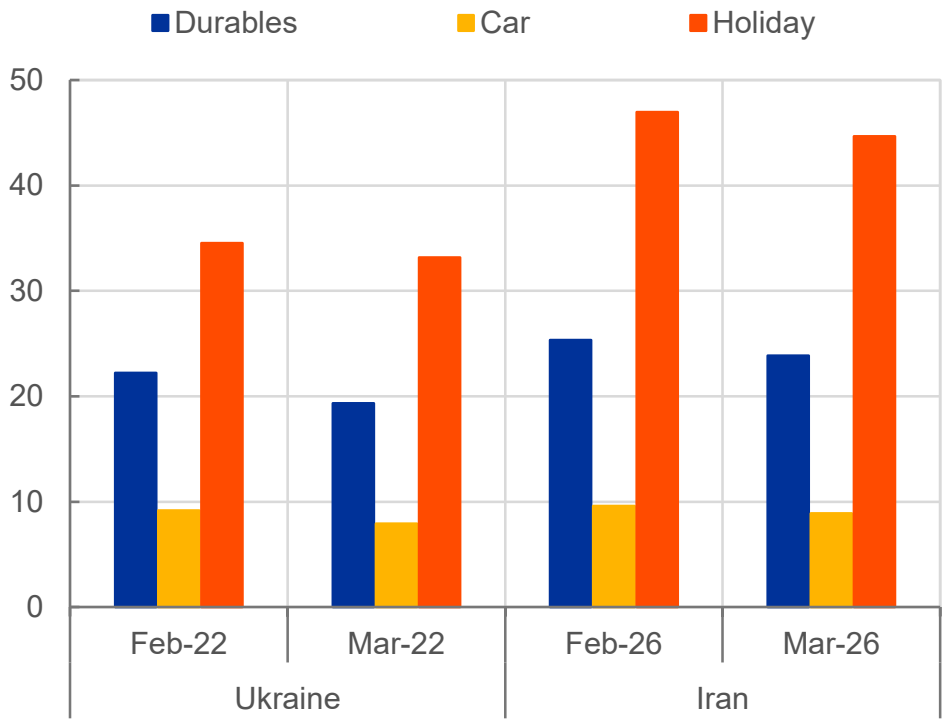
Consumer spending plans over the next 12 months



Purchasing plans of big-ticket items have somewhat revised downwards

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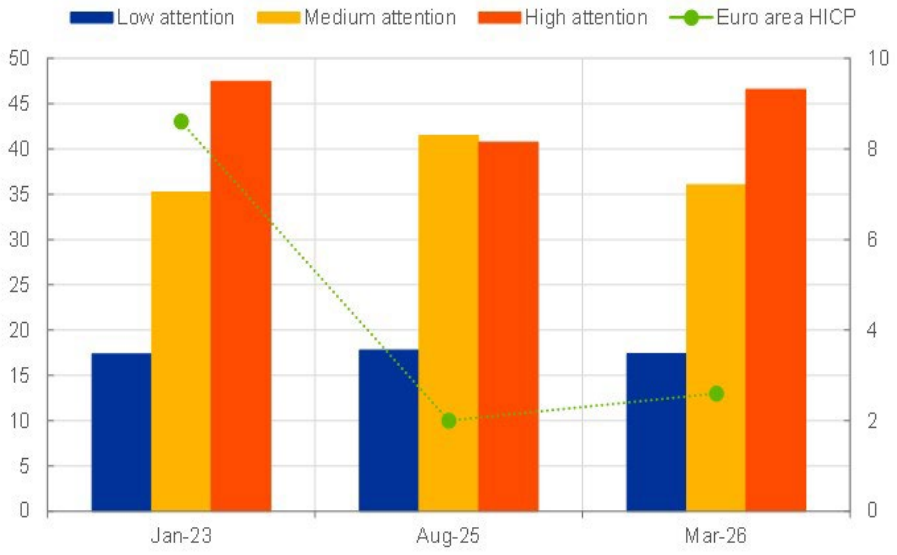
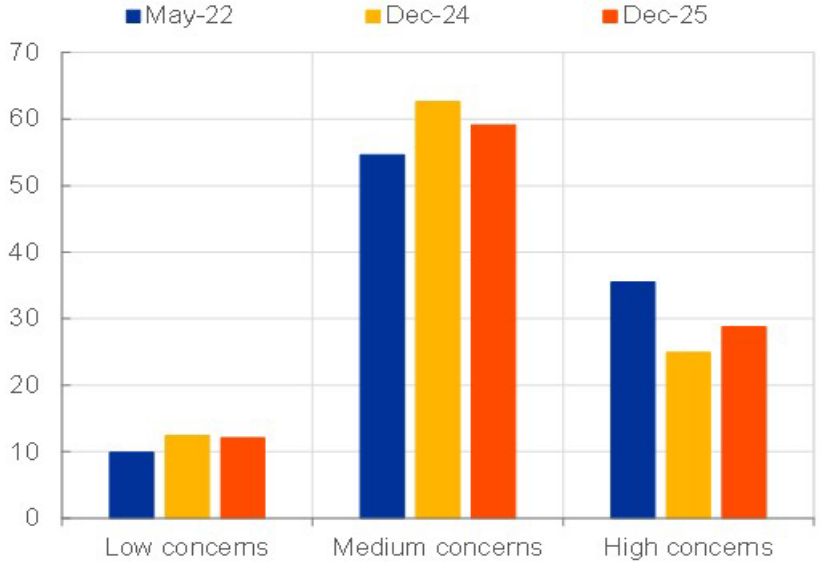
The “double scar”: how past experiences amplify current reactions



Memories of the recent inflation surge have **renewed** consumers’ **attention to inflation**



Impact of geopolitical tensions on consumer finances **already a concern** in Dec 2025

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Conclusions

- Geopolitical conflict such as Russia's unjustified war against Ukraine and the conflict in the Middle East **trigger strong and persistent geopolitical concerns** among euro area consumers

- Geopolitical risk impacts consumer expectations
    - **Considerable and stagflationary** deterioration in macroeconomic outcomes
    - **Deterioration in government budgets**
    - **Worsening** in **household's own financial situation** and reduced **real spending**

- If consumers come to see endless war as the "new normal", **lower spending plans more likely to** become self-fulfilling, dragging down economies

- **Iran war**: interacts with the "**scars**" left by earlier periods of *high inflation* and *geopolitical tensions*

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Conclusions (cont.)

- Large spillover effects have implications for how we should think
  - Macroeconomic stabilization in Europe
  - The cost of war in general and Russian aggression specifically
- Policymakers **could mitigate how wars shape expectations** (e.g., communication about long-term economic resilience may help counter the drumbeat of pessimism)
- Central banks: to **remain committed to price stability** even when geopolitical risks push growth lower
  - If they do not deliver on price stability, the **costs of regaining credibility later** will likely be much higher

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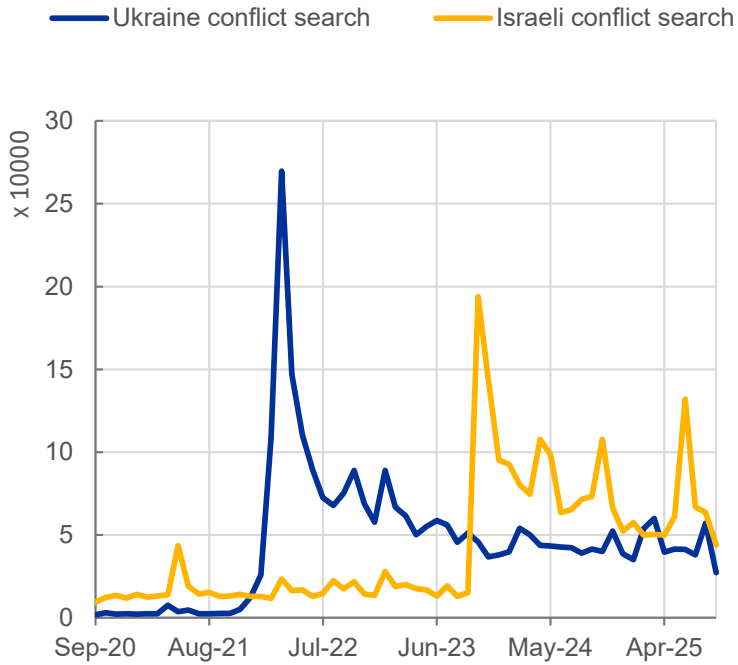
News search for Ukraine war and Middle East conflict



Source: **Factiva** (global news and business archives incl. newspapers, newswires, newsletters, magazines, transcripts, etc. from 33 languages/ 200 countries); *filters*: Political/ General News; Commodity/ Financial Market News; Economics News

UKR: (Ukraine | Ukrainian) & (Russia | Russian) & (war | conflict | invasion | attack | fighting | hostilities | "military operation")

ISR: (Israel | Israeli | Gaza | Palestine | Palestinian | Hamas | Hezbollah) & (attack | war | conflict | fighting | hostilities | strike | assault)

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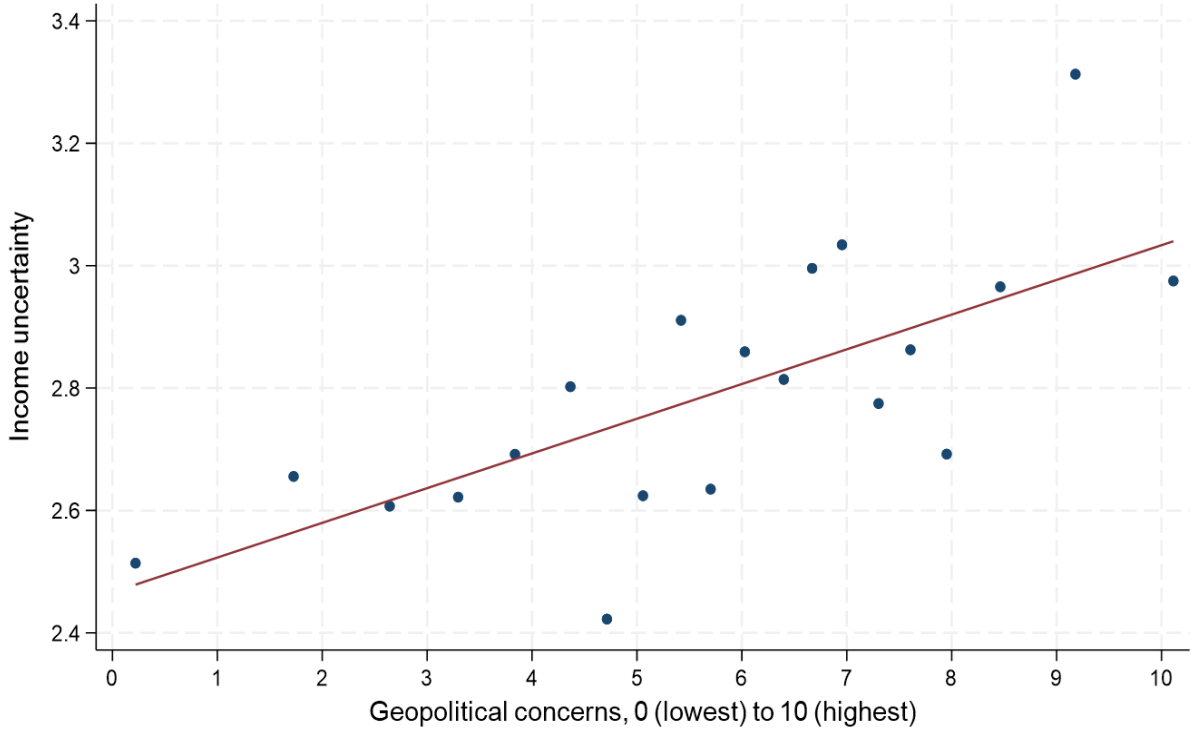
Correlations of geopolitical concerns with own income uncertainty



- **Cross-section**: geopolitical concerns are **positively correlated** with elevated income uncertainty (SD from subjective probability distribution)

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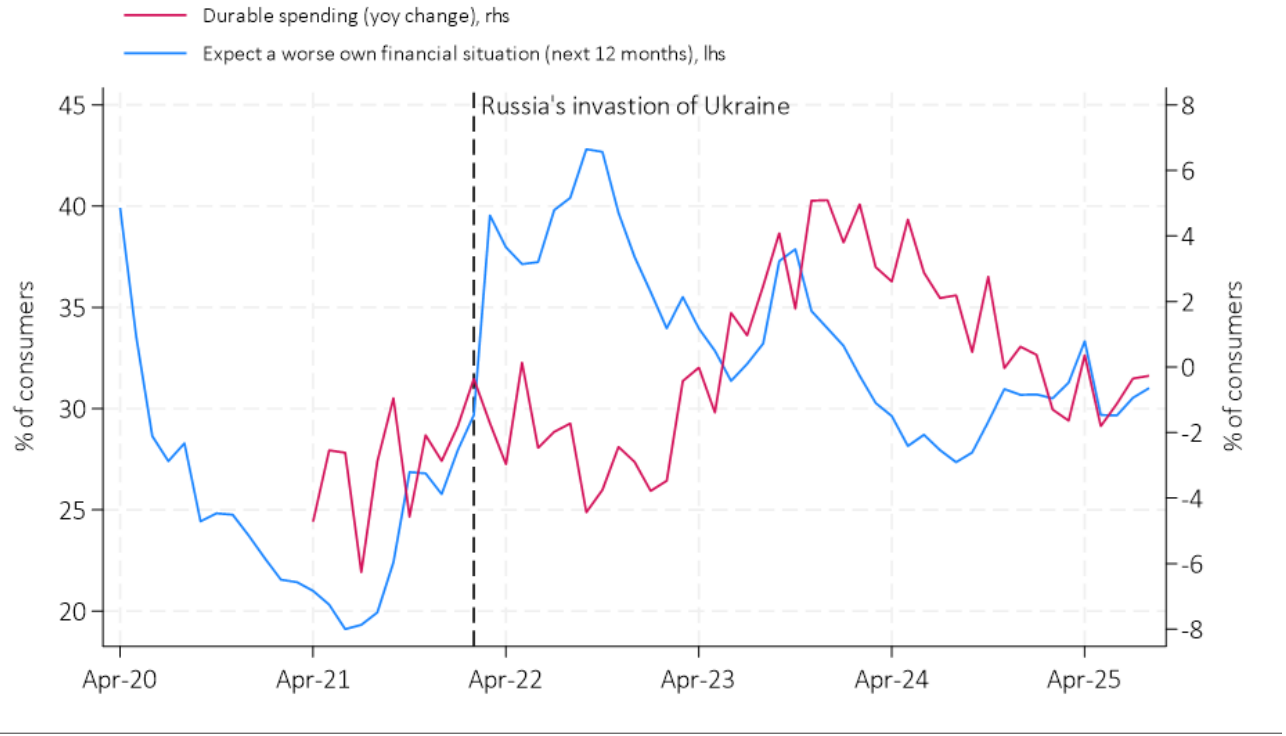
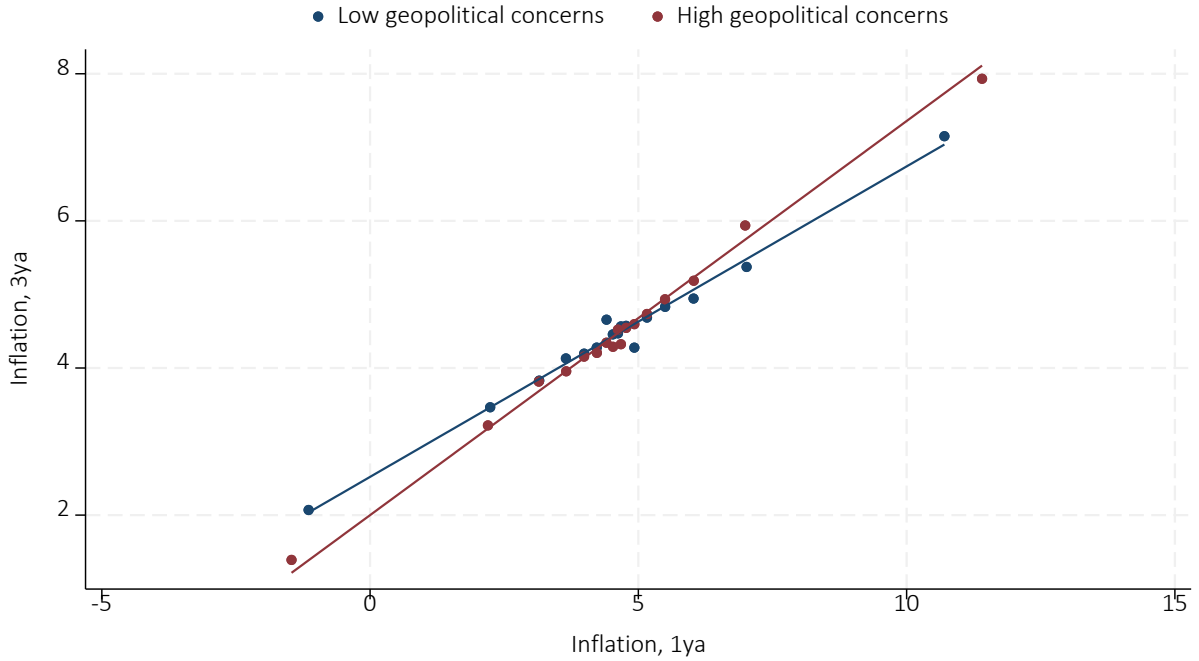
CES: Aggregate variation in Sentiment and Durable spending



March 2022: upward spike in pessimism; more recently: some increase in pessimism, rebound in durable spending fades

Medium-term inflation expectations and geopolitical concerns



More concerned consumers **extrapolate more** from near-term to medium-term IE

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