

WHITE PAPER

Banking on Uncertainty: Thriving Through the Tariff Storm

April 2025

By Matteo Coppola, Marc Gilbert, Keith Halliday, Andrea Bressani, Panagiotis Markou, and Giovanni Lucini

Banking on Uncertainty: Thriving Through the Tariff Storm

Abstract

- Geopolitical risk has become a top priority for bank CEOs, especially following the April 2025 tariff shock.
- This paper focuses on how banks can practically respond to geopolitical shocks that amplify traditional banking risks—credit, market, liquidity, and operational.
- Changing geopolitical dynamics also elevate exposure to cyberattack and sanctions. Banks must bolster digital resilience and integrate monitoring sanctions into risk management systems.
- BCG has developed a tailored methodology that converts geopolitical scenarios into sector and bank specific impacts and suggests mitigation actions, unlike traditional macro approaches that often fail to deliver actionable managerial choices.
- This helps identify concrete steps such as adjusting treasury and risk practices, enhancing geopolitical intelligence, financing strong clients which are adapting their supply chains, and rebalancing credit portfolios through pricing differentiation, credit insurance, or securitization.

* * *

In April 2025, a new wave of tariffs jolted the global economy into a state of significant uncertainty. The US sharply hiked import duties on April 2, taking the average tariff to around 23%, and representing a tenfold increase from the previous year. Markets reacted with precipitous selloffs, underscoring both the global reach and uncertainty generated by these events. Banks, as intermediaries of the real economy, have experienced asymmetric impacts: US bank stocks plunged nearly 10% on the first day after the announcement while European bank indices fell around 5% during the same period. This has ushered in considerable macroeconomic volatility marked by recession fears and inflation swings, placing uneven pressures on banks across regions and business models.

On April 9, a 90-day pause was announced on most tariffs — excluding those on China — which slowed the immediate selloff, although market volatility remained high. Attention now turns to upcoming trade negotiations and the possibility of further retaliatory actions.

While broad macroeconomic impacts of these tariffs are being explored elsewhere, this paper focuses on how banks can respond with practical, actionable steps. Our emphasis is on equipping banks with actionable tools and strategies to build resilience and identify opportunities in the current volatility.

Geopolitical turmoil such as that generated by recent increased tariffs is not a standalone risk. Rather, it serves as a significant driver that amplifies traditional banking risks in a variety of ways. Over the past century, spikes in geopolitical risk have typically led to reduced bank capitalization through lower economic activity, higher inflation, higher sovereign risks, and volatile capital flows and asset prices.

Geopolitical Risk: Amplifying Risks, Demanding a New “Muscle” for Banks

Unlike isolated credit events, geopolitical shocks elicit a cascade of effects. Tariffs reduce business investment and consumer spending, which in turn depresses loan demand and asset quality while also roiling financial markets and increasing funding costs. These impacts are non-linear and idiosyncratic, varying significantly by country, business model and the sector composition of loan portfolios, but major events disproportionately affect banks. Credit, market, liquidity, and operational risk are increased significantly by geopolitical turmoil, requiring real-time integration into any banks’ enterprise risk management strategies.

The current tariff shock will affect banks unevenly (see exhibit 1). In the US, regional banks are vulnerable due to their concentrated local loan portfolios, leading to potential defaults and increased provisioning needs. In contrast, large US globally systemically important banks (GSIBs) can benefit from diversified revenue streams with, for example, trading income partially offsetting other declines at least in the short term. European banks face significant pressure from weak economies, low loan demand, and tighter margins amid anticipated rate easing by the ECB. Asian banks, particularly in China, face challenges from reduced exports, market instability and currency volatility, all of which exert stress on credit portfolios.

Exhibit 1 - Key Risk Impact | Impact on Multiple Dimensions Across Five Archetypes of Banks

Impact area	FI archetypes									
	European Large Intl. Bank		US Regional Bank		US G-SIB		Global Bank (multi-continent presence)		Japanese Major Bank	
Loan portfolio & asset quality	Demand for new loans	↘	Demand for new loans	↓	Demand for new loans	↓	Demand for new loans	↘	Demand for new loans	↘
	NPE ratio	↗	NPE ratio	↑	NPE ratio	↑	NPE ratio	↗	NPE ratio	↗
Liquidity & funding	Funding cost	↘	Funding cost	↗	Funding cost	→	Funding cost	↘	Funding cost	↘
	Deposit outflows	→	Deposit outflows	↓	Deposit outflows	→	Deposit outflows	→	Deposit outflows	→
Interest & commission Income (p&l)	Interest income	↓	Interest income	↓	Interest income	↘	Interest income	↓	Interest income	↓
	Interest expense	↘	Interest expense	↑	Interest expense	→	Interest expense	↘	Interest expense	↘
	M&A fees	↘	M&A fees	→	M&A fees	↓	M&A fees	↓	M&A fees	↘
	Trading fees	↗	Trading fees	→	Trading fees	↑	Trading fees	↗	Trading fees	↗
	Cost of risk	↗	Cost of risk	↑	Cost of risk	↑	Cost of risk	↗	Cost of risk	↗
Investment portfolio	Bond prices	→	Bond prices	↓	Bond prices	↘	Bond prices	↘	Bond prices	→

■ Lower Impact ■ Medium Impact ■ High Impact

Source: BCG analysis and outside in estimation.

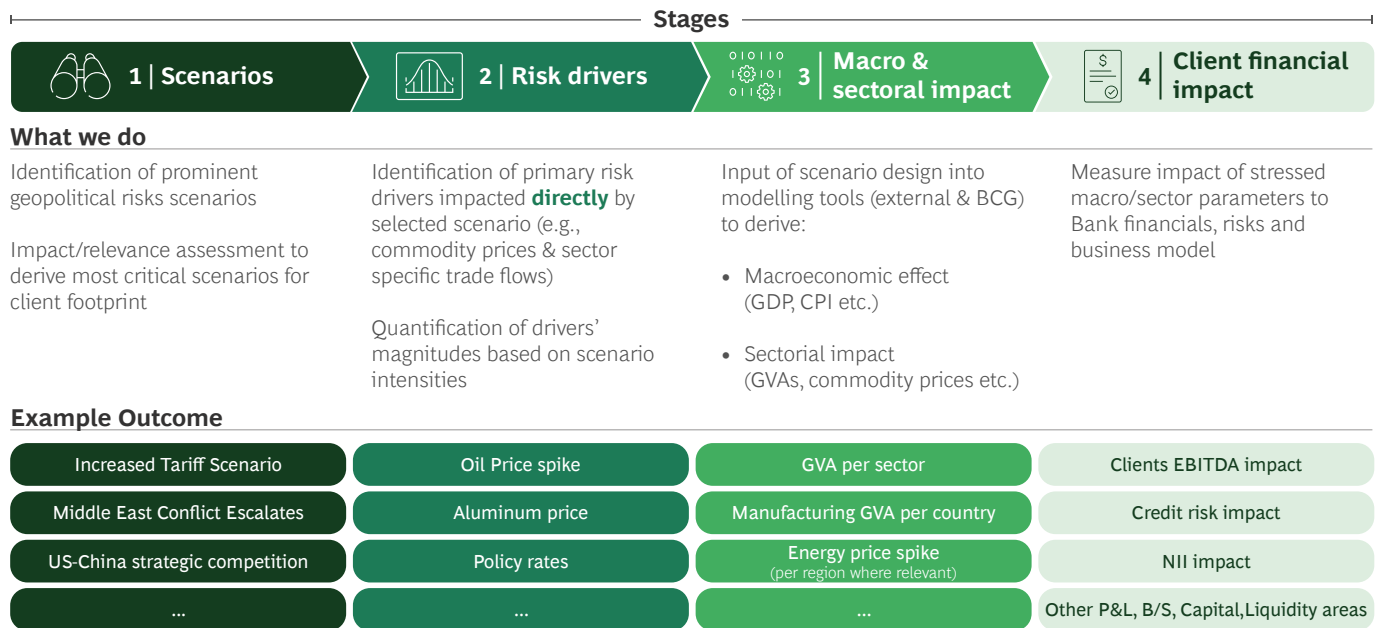
Business models within banks are also affected differently. Trade finance and corporate lenders immediately bear the brunt of declining trade volumes. Investment banks face subdued dealmaking but can benefit from increased trading revenue. Retail and commercial banks suffer indirectly through reduced consumer spending and weakened loan demand but also more directly through increased loan losses in credit card and mortgage portfolios. Global banks must navigate a complex combination of these factors, alongside an often-fragmented regulatory response and a geopolitical backlash.

Sector exposure further shapes impact. Banks with concentrated lending to geopolitically sensitive industries such as autos, energy, or semiconductors face higher credit risk due to disrupted supply chains, shifting trade flows, and regulatory uncertainty.

To adapt, banks need to strengthen their geopolitical risk management capabilities. Traditional stress tests are inadequate for this rapidly evolving environment. Instead, banks need a robust, integrated approach (see exhibit 2) that encompasses scenario generation, identification of key risk drivers, macro-sectoral linkage, and the calculation of business-specific risks. Although geopolitical shifts tend to be over quickly, being able to assess and quantify them accurately can enhance both the quality of strategic discourse and near-term decision-making.

Exhibit 2 - 4-step Geopolitical Risk Quantification Approach for FIs

Illustrative



Uses and Benefits of Impact Quantification: A Real Case

At BCG, this methodology has proven effective in practice even shortly before recent events. For instance, a large cross-border European bank implemented a comprehensive geopolitical risk exercise. We used our tailored framework covering scenario prioritization to sector impact quantification and mitigation action planning. The bank took scenarios like “Increased US Tariffs” and “Middle East Conflict Escalation” and ran each through a structured quant model. The process converted each scenario into the impact upon sector-level Gross Value Added (GVA) and EBITDA, which served as proxies for cash flow stress on borrowers and, by extension, credit risk. These sector shocks could then be mapped to the bank’s exposures, resulting in estimated changes to non-performing loans and capital. Importantly, this exercise goes beyond measurement and can identify mitigation actions.

In the Middle East Conflict Escalation scenario, some of the worst hit sectors were tile manufacturers and bakery producers - two highly relevant sectors in the bank portfolio. These sectors rely more heavily on imported grain compared to smaller ones that use local production, and because tile manufacturers use large, specialized gas-fired ovens.

This is the level of quantitative detail needed to take management decisions about how to mitigate geopolitical risk.

For example, the lending price differentiation between the tile manufacturers and bakery producers versus retail distribution chains and dairy products producers (that are less affected) leads to a portfolio rebalancing towards those least affected sectors. The bank can also support clients in affected sectors shifting the supply chain towards more resilient suppliers. For example, tile manufacturers could form a consortium to purchase Liquefied natural gas (LNG) from North America and Qatar - an initiative that requires financing.

Another example is the auto sector, which is acutely affected by the new tariff context. The bank could tighten credit lines to vulnerable auto parts suppliers or plan loan provisions.

The result is a much clearer picture of where the bank is exposed and also where it could even find opportunities, such as financing companies that are shifting supply chains.

In management discussions, this analytical clarity can inform strategic decisions. Rigorous quantification of geopolitical risk can be embedded into bank’s planning.

Beyond Financial Impacts: Cyber and Sanctions

Geopolitical conflict also heightens the risk of cyberattacks and sanctions.

State-sponsored cyber threats targeting financial institutions become more likely during periods of heightened tension. Banks must strengthen digital resilience, including system redundancy and remote operability. Being able to prioritize cyber risk exposure through a quantitative approach is essential for guiding strategic investment. Leading banks are also running cyber readiness drills, like those conducted during the pandemic lockdowns.

Sanctions risk has also grown significantly. European sanctions enforcement has increased more than 500% since 2020. Future conflicts may trigger more sanctions, to which banks must quickly comply or risk fines and reputational damage. Banks with significant international business exposure to sanctioned countries face heightened risk, yet even domestic banks must remain vigilant due to interconnected supply chains and correspondent banking relationships.

Key capabilities include political horizon scanning, real-time screening systems and rapid response playbooks. Top performing banks integrate sanctions risk into geopolitical frameworks and establish cross-functional war rooms to react to new sanctions within hours.

Driving Strategic Decisions

Amid uncertainty, banks have a clear strategic path to follow, which can allow them to emerge stronger.

- **Diversify and rebalance portfolios:** banks should diversify exposures across geographies, industries, and client segments, reducing focus on areas highly exposed to tariffs and increasing presence in stable or domestic sectors. Insulated sectors like healthcare and utilities and regions benefiting from supply chain adjustments, like the UK, should be prioritized. Portfolio limits should be put in place and potential growth segments engaged to balance risks.
- **Deepen client support and advisory:** banks should go out and offer tailored financial guidance to clients impacted by tariffs, and assist in supply chain restructuring, inventory financing, and hedging solutions. Enhanced advisory roles solidify client relationships, protect loan portfolios, and create opportunities to connect clients with emerging markets and shifting supply chains.
- **Enhance agile treasury and risk management:** banks must rapidly adjust funding and hedging strategies amid volatility, utilizing risk hedges such as FX forwards, commodity, and credit swap). Securitization should be used to manage credit exposure.
- **Strengthen geopolitical risk intelligence & early warning:** banks should establish dedicated teams for continuous geopolitical monitoring, scenario analysis, and senior management briefings. Early warning indicators (for example, currency swings, shipment data) need to be integrated into risk dashboards, enabling a swift response to emerging risks and strategic opportunities.

Looking Beyond the Tariff Storm: Potential Structural Shifts in Banking

The current tariff storm signals a deeper, long-term shift in the banking landscape. Sustained geopolitical tension is driving fragmentation across policy, markets, and technology, demanding a strategic rethink.

- **A tectonic shift from the US to other consolidated capital markets:** with the position of the US dollar as a global reserve currency now questioned and a pressing need for greater investment in Europe, for example, capital could move to other places especially if a European capital market union finally becomes reality.
- **Generally, more localized capital regimes:** as geopolitical blocs solidify, capital mobility may shrink. Banks could face stringent local capital requirements and limited cross-border flexibility, forcing regional self-sufficiency. This limits global optimization but may also reduce foreign competition.
- **Policy volatility:** governments might offset trade shocks with deregulation or fiscal stimulus. Banks in the US could benefit from looser rules or new lending opportunities in infrastructure, for example, while uneven global policies disrupt competitive dynamics. Strategic agility is key.
- **Tech divergence:** geopolitical divisions are splitting the financial tech stack. Separate systems for payments, data, and fintech may emerge. Banks will need modular, interoperable systems to manage rising complexity and maintain global reach.

Bottom line: The global banking model is becoming more fragmented. Those who adapt early will build resilience and find opportunities.

About the Authors

Matteo Coppola is the Global Leader for Risk and Compliance and a Managing Director and Senior Partner in BCG's Milan office. You may contact him by email at Coppola.Matteo@bcg.com.

Marc Gilbert is the Global Lead for the Center for Geopolitics, Global Topic Leader for Geopolitics & Trade Impact and a Managing Director and Senior Partner in BCG's Toronto office. You may contact him by email at Gilbert.Marc@bcg.com.

Keith Halliday is the Lead for the BCG Centre for Canada's Future and a Partner and Associate Director for Global Trade & Investment in BCG's Toronto office. You may contact him by email at Halliday.Keith@bcg.com.

Andrea Bressani is a Partner and Director for Retail, Geopolitical and Investment Risk Management in BCG's Milan office. You may contact him by email at Bressani.Andrea@bcg.com.

Panagiotis Markou is a Partner in BCG's Athens office. You may contact him by email at Markou.Panagiotis@bcg.com.

Giovanni Lucini is a Partner and Director for Risk in Financial Institutions in BCG's Milan office. You may contact him by email at Lucini.Giovanni@bcg.com.

For Further Contact

If you would like to discuss this report, please contact the authors.

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

For information or permission to reprint, please contact BCG at permissions@bcg.com. To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com. Follow Boston Consulting Group on [Facebook](#) and [X \(formerly Twitter\)](#).

© Boston Consulting Group 2025. All rights reserved. 4/25

