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2025 EU-wide stress test: Frequently Asked Questions

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Key features of the 2025 EU-wide stress test exercise

1. What is the objective of the EU-wide stress test?

The EU-wide stress test is part of the supervisory toolkit used by Competent Authorities (CAs) to assess the resilience of EU banks to severe shocks, identify residual areas of uncertainties, as well as feed into the supervisory decision-making process to determine appropriate mitigation actions. The stress test also allows CAs to assess if the capital banks have accumulated in recent years is sufficient to cover losses and support the economy in stressed times. Moreover, the exercise fosters market discipline through the publication of consistent and granular data on a bank-by-bank level, as it shows how balance sheets are affected by common shocks.

2. How does the stress test work in practice?

The EU-wide stress test is mainly a constrained bottom-up exercise, with some parts relying on top-down projections. The EBA has developed a common methodology, which is applied by all banks using their internal models. The common methodology allows CAs to undertake a rigorous assessment of banks' resilience under stress. Methodological constraints in several areas limit banks' degree of freedom and ensure a level playing field via the comparability of outcomes across banks. Banks' results are checked, and quality assured by CAs.

3. What is the role of the EBA?

The EU-wide stress test is initiated and coordinated by the EBA and undertaken in cooperation with CAs (including the Single Supervisory Mechanism (SSM) for the euro area banks), the European Central Bank (ECB) and the European Systemic Risk Board (ESRB). The EBA is responsible for coordinating the exercise and for developing a common methodology. The EBA supports the quality assurance process by providing common quality assurance guidelines and EU-wide descriptive statistics on the main risk parameters to enable CAs to perform consistency checks and to undertake a rigorous assessment of banks' results. In addition, the EBA acts as a data hub for the final dissemination of the outcome of the exercise, thus ensuring transparent and comparable disclosure of banks' results. Finally, the EBA plays a key role in ensuring effective communication and coordination between home and host authorities in the framework of colleges of supervisors.

4. What are the roles of the ECB, the ESRB, the national CAs and the SSM?

The ESRB, in close cooperation with the ECB, CAs, the EBA and national central banks, is responsible for designing both the baseline and adverse macroeconomic scenarios. The baseline for EU countries is based on the December 2024 projections from the national central banks, while the adverse scenario is developed by the ESRB's Task Force on Stress Testing in close collaboration with the ECB and is approved by the ESRB General Board.

CAs, including the SSM, are responsible for ensuring that banks correctly apply the common methodology developed by the EBA. In particular, CAs and the SSM are responsible for assessing the reliability and robustness of banks' assumptions, data, estimates and results. Furthermore, they are responsible for determining the resulting supervisory actions.

5. Which banks are involved in the exercise?

The 2025 exercise covers a sample of 64 banks - 51 from the Eurozone - representing about 75% of EU banks' total assets. The EU-wide stress test is conducted at the highest level of consolidation (group level).

6. What is the timeline for the stress test?

After the launch of the exercise, banks will estimate the impact of the adverse scenario on their balance sheets and performance and will provide several submissions of the stress test results to CAs and the EBA. These submissions are quality assured and challenged by the CAs. The EBA expects to publish the results of the exercise at the beginning of August 2025.

Key methodological features

7. What are the specificities and key features of the 2025 EU-wide stress test exercise?

The 2025 exercise is based mainly on bottom-up projections from banks subject to constraints and a static balance sheet approach. Some parts of the exercise rely on top-down projections, like net fees and commission income and securitisation risk-weights. Net Interest Income (NII) projections have also been centralised.

The methodology has undergone some important changes compared to the one used for past stress test exercises to integrate the Capital Requirements Regulation (CRR3), which applies from January 1, 2025. The changes consider the application of the output floor and account for the postponement of the Fundamental Review of the Trading Book (FRTB). The 2025 methodology also benefits from enhancements, including the incorporation of lessons learnt from the previous exercise, the centralisation of net interest income (NII) projections with a revised NII scope. In addition, a more risk-sensitive market risk approach has been introduced, with enhanced proportionality, a new floor on Held-for-Trading gains and losses and a revised cap for client revenues. The changes are part of the medium-term plan of revising the stress test framework.

8. How is the new EU banking package reflected in the 2025 EU-wide stress test?

The new banking package applies as of 1 January 2025 and is embedded in the 2025 EU-wide stress test accordingly. This entailed significant revisions especially affecting credit risk, operational risk and the introduction of the output floor. Risk exposure amounts (REA) will need to be restated for the different risk areas.

The 2025 EU-wide stress test framework also considers the European Commission's announcement to postpone the application date of the fundamental review of the trading book (FRTB) until January 1, 2026.[1]

The CRR3 allows for a progressive introduction of the new prudential requirements in targeted areas, whereby transitional arrangements are introduced to smoothen the implementation impact of the new requirements. These transitional arrangements will be in place beyond the 3-year forecasting horizon of the 2025 EU-wide stress test. Banks are asked to report capital ratios both on a transitional and on a fully-loaded basis which allows to capture the effect of the stress test scenario on capital depletion. The degree of resilience of the participating banks to severe, but plausible shocks, is hence illustrated, both by expressing the information on banks' capital depletion where the transitional arrangements of the banking package are taken into consideration and where they are not considered.

9. Is the sectoral breakdown introduced in 2023 for credit risk still applied for the 2025 EU-wide stress test?

For the second time, the EBA stress test exercise will include an assessment of credit risk at the sectoral level. The main purpose of the breakdown by sector is to ensure that the results of the stress test reflect banks' exposures towards different sectors, which are expected to be affected differently by the scenario thereby increasing the credibility and realism of the exercise. Banks should continue reflecting the tailored scenario by industry sector in their stress test projections. In this regard, the methodology has been updated with renewed expectations about the modelling sophistication expected by banks when reporting the sectoral exposures template. The reporting thresholds are amended to increase the amount of exposures in scope of sectoral projections and to decrease the reporting gap between less and more diversified banks.

10. How will the methodology for projecting net interest income (NII) differ from previous exercises?

NII projections will be centralised by applying the methodologically prescribed pass-through parameters in a centralised manner. The introduction of centralised elements for the projections of NII is part of the EBA work on the future changes to the EU-wide stress test. This methodological change aims at reducing costs for both banks and supervisors.

[1] https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_24_3981/IP_24_3981_EN.pdf

The centralisation of NII projections led to several changes to the templates and the methodology to ensure that most exposures are under the scope of the centralised projections while at the same time continuing capturing specificities. In addition, to reduce reporting and quality assurance costs and increase the benefit from the centralisation, the EBA will introduce a platform that banks will use to fill in the NII projections in a secured and controlled environment.

11. How will the EBA ensure consistency between both Eurozone and non-Eurozone countries in the conduct of the exercise?

The exercise is conducted across the EU. Therefore, its consistency relies on the common methodology, same scenario, and a rigorous assessment of the granular transparency of results and underlying data. In addition, the EBA will conduct a comparative analysis at the end of the quality assurance process run by CAs (see also question 3 on the EBA's support to the quality assurance process). The bank results will also be discussed in the framework of colleges of supervisors involving home and host authorities, as well as the EBA.

12. How does the EU-wide stress test compare to other similar exercises globally?

The EU-wide stress test, coordinated by the EBA, differs from other global stress tests in several important ways.

One notable distinction is its reliance on a predominantly bottom-up approach with some specific constraints. This means that banks are responsible for producing projections based on the methodology and scenarios provided by the EBA, however, for ensuring conservativeness the projections might be subject to constraints in the form of caps or floors. The EU-wide also incorporates some top-down elements, such as projecting Net Fees and Commissions Income centrally. This hybrid approach contrasts with the stress testing practices in other jurisdictions which may rely entirely on a bottom-up or top-down approach.

In terms of methodology, the EBA uses a static balance sheet approach, which assumes that the composition and size of a bank's balance sheet remain unchanged over the test horizon. While this ensures consistency and comparability across banks, it does not account for potential adjustments that banks might make in response to adverse scenarios. Additionally, the EBA does not consider management actions, such as changes in business strategy, when calculating final capital depletions. This is another key difference from some other stress tests, which may allow for management adjustments.

The results of the EU-wide stress test serve as input to the Supervisory Review and Evaluation Process (SREP), but they are not translated directly into capital requirements or have a direct effect on decisions related to the distribution of dividends.

Another distinguishing feature of the EU-wide stress test is its high level of transparency. The EBA publishes a significant amount of granular data alongside the results, enabling detailed analyses by stakeholders.

Key features of the stress test scenarios

13. How different is this year's scenario compared to the previous exercises?

Similar to previous exercises, the narrative of the adverse scenario for the EU-wide banking stress test reflects the main risks for EU banks that have been identified by the EBA and the ESRB. Compared with past exercises, the adverse scenario puts greater emphasis on worsening geopolitical tensions, both in terms of escalation of conflicts and shocks to global trade and supply chains over the horizon and, as a result, a strong economic contraction. The assumed materialisation of these risks triggers widespread substantial corrections in asset prices and a severe decline in GDP over the horizon. Contrary to the previous stress test scenario, which implied the persistence of high inflation over the whole horizon, this scenario features a milder and more temporary increase in inflation. As usual, the adverse scenario is hypothetical, based on a set of severe assumptions meant to generate adequate stress across all EU countries.

Considering the high uncertainty surrounding the macroeconomic outlook, the adverse scenario remains relevant and severe for testing the resilience of the EU banking sector in the current macroeconomic environment.

14. What are the key features of the adverse macro-financial scenario?

While the adverse macro-financial scenario is unlikely to unfold it is based on the important premise that although hypothetical it should be severe, plausible and in line with the risk and vulnerabilities that might threaten the EU banking sector. It reflects the high degree of uncertainty in the current economic and geopolitical environment.

The key features of the adverse macro-financial scenario are:

- a severe loss of real GDP for the EU, reaching 6.3% from the starting point in 2024 to 2027.
- a significant increase in EU unemployment rate, of 5.8 percentage points from the starting point in 2024 to 2027.
- an increase in inflation above baseline levels in the first 2 years of the horizon, by 2.6 ppts in 2025 and 1.5 ppts in 2026, dropping below the baseline by 0.2 ppts in 2027.
- a marked increase of EU long-term interest rates, by roughly 150 bps between the starting point at the end of 2024 and the end of 2027.
- a strong fall in EU stock prices from the starting point, of 50% in 2025, 46% in 2026 and 42% in 2027.
- a substantial drop in EU residential and commercial real estate prices from the starting point over the three-year horizon, by 15.7% and 29.5% respectively.

15. Which additional elements are derived from the main macro-financial scenario?

Two elements are derived from the macro-financial scenario: the first one is the market risk scenario, which provides instantaneous shocks for risk factors covering interest rates, FX, equities, commodities, sovereign and corporate credit spreads, volatilities, liquidity reserves and global inflation expectations. The definition of shocks in the market risk scenario is consistent with the narrative of the stress test exercise, although market risk shocks have a different time horizon compared to the macro-financial scenario. Macro-financial adverse shocks have been frontloaded in the market risk scenario, to further enhance the consistency between the two scenarios and enhance the degree of conservativeness of the market risk scenario. The market risk scenario is used by participant banks to stress positions under the scope of the market risk methodology.

The second element is the sectoral decomposition of the adverse macro-financial scenario. Real GDP projections are broken down into consistent sectoral real Gross Value Added (GVA) projections, reflecting shock- and country-specific vulnerabilities. The decomposition provides the projections for 16 sectors of economic activity, corresponding broadly to the first level of the Eurostat NACE Rev.2 statistical classification of economic activities.

16. How severe is the adverse macro-financial scenario, compared to the previous exercises?

The adverse scenario is based on a narrative of hypothetical worsening of geopolitical tensions, with large, negative, and persistent trade and confidence shocks having strong adverse effects on private consumption and investments, both domestically and globally. This configuration contributes to the severity of the assumed macroeconomic picture, by dampening demand via real income and financing cost adverse effects. It also increases the risks of corporate and household defaults for banks, against the background of elevated debt levels already at the beginning of the stress test horizon.

The degree of severity of the 2025 EBA adverse scenario is similar to the 2023 exercise in terms of GDP cumulative drop but is relatively more severe compared with previous exercises. The 2025 adverse scenario shows a cumulative decline of EU GDP from the starting point of 6.3% over the three-year horizon, compared to a 6% cumulative decline in 2023, 3.6% in 2021 and 2.7% in 2018. Assumptions for both interest rates and inflation appear lower than in the 2023 scenario but are higher than in the 2021 exercise adverse scenario that was characterised by a “lower for longer” interest rate environment – along with very low inflation.

17. What are the assumptions on monetary policy taken in the adverse scenario?

The convention used in the calibration of adverse scenarios for EBA stress tests is one of “no policy change”, which also applies to the 2025 adverse scenario. This means that no other monetary policy and fiscal policy reactions other than the ones considered under the baseline scenario are assumed under the adverse scenario. As a result, no information on future policy steps can be inferred from the adverse scenario.

18. Is climate change risk considered in the scenario?

Climate risk is not explicitly considered in the EU-wide stress test scenario. Climate risk has specifically been addressed in the one-off “Fit-for-55” climate risk scenario analysis, whose results have recently been published jointly by the EBA, EIOPA, ESMA and ECB.[2] The objective of the

[2] One-off Fit-for-55 climate risk scenario analysis | European Banking Authority

climate risk scenario analysis was to assess the resilience of the financial sector in line with the Fit-for-55 package, and to gain insights into the capacity of the financial system to support the transition to a lower carbon economy under conditions of stress. The results of the exercise show that the interaction of adverse macro-financial developments with transition risk factors could disrupt the evolving transition and substantially increase financial institutions' losses, thereby impairing their financing capacity. The EBA is planning to embed climate related risks in the EU-wide stress test in the future to enhance its stress testing toolkit.

Disclosure

19. How will data and results be published?

The credibility of the EU-wide stress test rests on transparency and one of the most important aspects of this exercise is the disclosure of a large amount of comparable and consistent data across the EU. The level of transparency will be comparable to the previous exercises. The EBA will release bank-level data, aggregate reports, and interactive tools. The transparency provided through such disclosure will help market participants obtain insights into potential vulnerabilities.

Next steps

20. How will the stress test results feed into the Supervisory Review and Evaluation Process (SREP) process and how will supervisors use these results?

The results of the stress test will allow CAs to assess banks' ability to meet applicable minimum and additional own funds requirements under the common downturn scenarios and assumptions. The outcome will also be taken into account by CAs for setting potential capital and leverage (e.g. P2G and P2G-LR). Furthermore, the results will form a solid ground for a discussion with supervisors and individual banks, to understand relevant management actions, such as how their capital planning, including dividend distribution, may be affected by the stress and, therefore, ensure that banks will remain above the applicable capital requirements (i.e. considering the transitional measures under CRR3), while continuing to finance the economy.

21. How is the 2025 EU-wide stress test connected with the work on the future changes to the EU-wide stress test?

In addition to the introduction of a top-down model for projecting net fees and commissions income that was introduced in the 2023 exercise, the EBA decided to centralise net interest income projections in 2025 stress test. Going forward, the EBA will investigate further the role of top-down elements in the EU-wide stress test with a particular focus on credit risk.