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The results of the European Banking Authority's stress tests demonstrate Spanish banks' sound resilience

The European Banking Authority (EBA) has today published the results of the stress tests of 70 European Union credit institutions that account for approximately 75% of EU banking sector assets, with 20 institutions (accounting for some 5% of the EU's banking assets) having been added to the sample. Of these 70 institutions, 57 are supervised by the Single Supervisory Mechanism (SSM), 19 more than in the 2021 exercise.

The European Central Bank (ECB), following criteria consistent with those applied in the EBA exercise, has conducted a parallel stress test on another 41 euro area medium-sized significant institutions.

The Spanish banking groups that participated in the exercises maintain satisfactory capital levels under the adverse scenario, with a generally lower impact than in the previous exercise, despite the greater severity of the scenario. The results of the adverse scenario will provide a basis for determining the Pillar 2 Guidance (P2G) recommendations. Moreover, certain qualitative aspects of this exercise will also be taken into account in the annual supervisory review and evaluation process (SREP).

The other key new feature of this year's exercise, in addition to the broader sample indicated above, is the introduction of a top-down approach based on a statistical model developed by the supervisor for net fee and commission income (NFCI).

This year's adverse scenario is marked by a sharp contraction in economic activity, as a result of the global supply chain disruptions owing to the heightened geopolitical tensions, which have been exacerbated by a fresh bout of COVID-19 infections. These disruptions have also given rise to higher and more persistent inflation, which in turn has driven up market interest rates. This is precisely the main difference from the adverse scenario envisaged in 2021.

European stress tests

As in previous stress tests, which are carried out every two years, the EBA coordinates the exercise and defines the methodology, while the competent authorities are entrusted with quality control. In the case of euro area institutions, this is performed by the ECB along with the national authorities belonging to the SSM.

Taking their figures as at 31 December 2022 as a starting point, the institutions have drawn up their earnings and capital projections for a three-year period (2023-2025) under two macroeconomic scenarios, one baseline and one adverse scenario, both of which were devised by the European Systemic Risk Board (ESRB), in cooperation with the ECB, the competent authorities, the EBA and the national central banks. The baseline scenario corresponds to the projections of the national central banks as at December 2022. The adverse scenario aims to reflect the main risks to financial stability identified at that time.

Main results of the exercise

As indicated in the EBA's report, the EU banks' income and profitability at the outset are better than in the 2021 exercise. This, together with their higher asset quality (lower non-performing loan ratios) makes them better positioned than in previous exercises.

Under the adverse scenario, the fully loaded CET1 ratio of the 70 EBA institutions stands at 10.4% at 31 December 2025. The aggregate impact is to lower the ratio by 4.6 pp over the three-year period (4.8 pp in the previous exercise).

In the case of the 98 institutions supervised directly by the ECB,[1] their fully loaded CET1 ratio stands at 10.4% at the end of the exercise under the adverse scenario, representing an average impact of 4.8 pp (5.2 pp in the previous exercise).

[1] 57 institutions in the EBA samples and 41 in the ECB sample.

Results of Spanish institutions

Eight Spanish banking groups participated in the EBA-coordinated exercise: Santander, BBVA, CaixaBank, Sabadell, Bankinter, Unicaja, Abanca and Kutxabank.

The breakdown by institution of the impact on their CET1 ratio is summarised in the following table:

	Transitional CET1 ratio			Fully loaded CET1 ratio		
Bank	31.12.22	Adverse scenario 31.12.25	Impact (pp)	31.12.22	Adverse scenario 31.12.25	Impact (pp)
Abanca	12.5%	9.2%	-3.3	11.9%	9.2%	-2.8
Bankinter	11.9%	10.3%	-1.6	11.9%	10.3%	-1.6
BBVA	12.7%	9.7%	-3.0	12.6%	9.7%	-2.9
CaixaBank	12.8%	9.3%	-3.4	12.5%	9.3%	-3.1
Kutxabank	17.6%	15.3%	-2.4	17.2%	15.3%	-1.9
Sabadell	12.7%	8.8%	-3.9	12.6%	8.8%	-3.7
Santander	12.2%	10.3%	-1.8	12.0%	10.3%	-1.7
Unicaja	13.6%	9.7%	-3.9	13.0%	9.7%	-3.3

Publication of results by bank

The following link to the EBA website provides information on the results of these tests:

- Reporting templates of all participating institutions.
- Aggregate report on the full results of the exercise for all institutions.

As the authority responsible for the direct supervision of 57 of the 70 institutions subject to the EBA test, the ECB has issued a press release assessing the results of the exercise. And like last time, it has also published the results of the 41 medium-sized institutions it has stress-tested.

Ad hoc analysis of unrealised losses in bond portfolios

In parallel, but separately from the stress tests, the EBA and the ECB compiled ad hoc data for the same sample of institutions on portfolios of bonds recorded at amortised cost and at fair value through other comprehensive income. These data show that the potential impact of unrealised losses in these portfolios is limited, given the current solvency and liquidity position of the institutions.

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