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Press and Communications

Press release

EBA launches 2016 EU-wide stress test exercise

The European Banking Authority (EBA) released today the methodology and macroeconomic scenarios for the 2016 EU-wide stress test. The stress test is designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. For this exercise, no single capital thresholds have been defined as the results will inform the 2016 round of Supervisory Review and Evaluation Processes (SREP) under which decisions are made on appropriate capital resources. The EBA expects to publish the results of the exercise in early Q3 2016.

Key features of the methodology and the scenario

The common methodology assesses solvency and covers all main risk types including: credit risk and securitisation, market risk, sovereign risk, funding risk and operational and conduct risks. The 2016 EU-wide stress test is run on banks' models and the results are then challenged by supervisors in the relevant competent authorities (CAs). To ensure consistency, the methodology contains key constraints such as a static balance sheet assumption, which precludes any mitigating actions by banks, and a series of caps and floors, for example on risk weighted assets (RWAs) and net trading income. In 2016, no pass fail threshold has been included as the objective is to use the stress test as a supervisory tool, whose results will be discussed with individual banks in the SREP process, where mitigating actions may also be considered.

The adverse scenario, designed by the European Systemic Risk Board (ESRB), reflects the four systemic risks that are currently assessed as representing the most material threats to the stability of the EU banking sector: i) an abrupt reversal of compressed global risk premia, amplified by low secondary market liquidity; ii) weak profitability prospects for banks and insurers in a low nominal growth environment, amid incomplete balance sheet adjustments; iii) rising of debt sustainability concerns in the public and non-financial private sectors, amid low nominal growth; iv) prospective stress in a rapidly growing shadow banking sector, amplified by spillover and liquidity risk.

Process

The EBA is responsible for coordinating the exercise and will act as a data hub for the final dissemination of the results in line with its commitment to enhancing the transparency of the EU banking sector. CAs will check the quality of the results and decide on any necessary supervisory reaction measure as part of the SREP process.

The results of the stress test will be published in early Q3 2016.

Notes for editors

The EU-wide stress test will be conducted on a sample of 51 EU banks covering 70% of the banking sector in the EU and will be run at the highest level of consolidation. The process for running the exercise will involve close cooperation between the EBA and the CAs (including the Single Supervisory Mechanism – SSM), the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission (EC).

As a combined result of the foreign demand shocks, financial shocks and domestic demand shocks in the EU, the scenario implies a deviation of EU GDP from its baseline level by 3.1% in 2016, 6.3% in 2017 and 7.1% in 2018. The adverse scenario also includes a shock in the residential and commercial real estate prices, as well as foreign exchange rates in Central and Eastern Europe. Cumulative GDP growth in the advanced economies, including Japan and US, would be between 2.5% and 4.6% lower than under the baseline scenario in 2018. Among the main emerging economies, the total GDP would stand between 4.5% and 9.7% below the baseline projections in 2018, with a stronger impact for Brazil, Russia and Turkey.

The EBA carried out a comprehensive review of the internal process which led to an error in the calculation of the 'fully loaded CET1 ratio' originally published in the interactive tool during the 2015 EU-wide transparency exercise. The EBA has subsequently put in place an enhanced internal control process and will ensure all data is signed off by institutions before its publication.