

Press release

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Stress test shows that euro area banking sector is resilient against severe economic downturn scenario

- CET1 ratio of the banking system would stand at 12.0% at the end of the projection horizon in the adverse scenario, 4 percentage points lower than its starting point
- Strong profitability provides banks with solid buffer against increased projected losses
- Exercise covers 96 (51 large and 45 medium-sized) euro area banks under direct ECB supervision

The European Central Bank (ECB) today published the [results](#) of its 2025 stress test, which shows that the euro area banking system is resilient against a severe economic downturn scenario.

At the end of the three-year period considered in the stress test, under the adverse scenario, the 96 banks included in the exercise project losses of €628 billion from deteriorating credit, market and operational risk, an increase compared with the €548 billion in the 2023 stress test. Despite these losses, capital depletion was lower than in previous stress tests. This milder outcome in terms of capital depletion is mainly due to banks entering the exercise with stronger profitability, driven by higher interest rates and stable asset quality. However, the sustainability of higher profits remains uncertain and may differ across banks.

The aggregate Common Equity Tier 1 (CET1) capital ratio, which is a key measure of a bank's financial soundness, would fall to 12.0% following three years of stress under the prescribed adverse scenario, compared with 10.4% in the 2023 exercise. This corresponds to a decline in CET1 ratio of 4.0 percentage points compared with the starting point. At the end of 2027, the CET1 ratio would be 5.1 percentage points lower than in the baseline.

The outcome of the stress test suggests that current capital buffers are supportive of the euro area banking sector's ability to withstand adverse shocks. The stress test took place against a backdrop of

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significant macro-financial uncertainty, reinforcing the case for continued prudence in capital planning and interpretation of results. Banks must continue strengthening their financial and operational resilience, including [investing in IT and cyber resilience](#).

The ECB stress-tested 96 banks under its direct supervision. Of those, 51 are the euro area's largest banks which are included in the [EU-wide stress test](#) coordinated by the European Banking Authority (EBA), and 45 are medium-sized banks outside the EBA sample. Together they represent roughly 83% of total banking sector assets in the euro area. Earlier today, the EBA published detailed [results](#) for the 51 largest banks. The ECB has published selected [data](#) for the 45 medium-sized banks.

Banks were confronted with a common baseline and a hypothetical adverse scenario. The adverse scenario assumes elevated geopolitical tensions and inward-looking trade policies, leading to higher energy prices and fragmented global supply chains. This would result in heightened uncertainty, loss of confidence, and a significant contraction in real economic growth. Market interest rates would rise initially, creating higher volatility and significant corrections in asset prices and real estate valuations.

In order to assess the implications of a rapidly changing macro-financial environment, the report includes sensitivity analyses of banks' vulnerabilities to changes in key scenario variables. For example, varying future interest rates could reduce net interest income, and higher tariffs might increase loan losses in vulnerable sectors. Yet, the report suggests that banks' stress test models capture sectoral vulnerabilities only to a certain extent.

The stress test is not a "pass-or-fail" exercise, and no threshold is set to define the failure or success of banks. Instead, it helps banks improve their risk management practices and supervisors assess bank's resilience.

Main drivers of capital depletion

The system-wide depletion under the adverse scenario is predominantly driven by losses related to credit and market risk, along with reduced income generation by banks.

Credit and market risk effects drive the overall depletion while the cushioning role of net profits decline under the adverse scenario. Loan loss provisions and risk exposure amounts increase substantially, detracting 5.0 and 1.1 percentage points respectively from the CET1 ratio at year-end 2024, as the adverse macroeconomic shocks affect borrowers' debt servicing capacity and recovery rates. Market risk contributes to a 1.3 percentage point depletion, mainly reflecting fair value changes in other comprehensive income and counterparty credit risk losses related to derivatives trading. Finally, operational risk and other profit and loss effects further reduce CET1 capital by around 0.7 percentage

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points. Net revenues amount to 4.8 percentage points under the adverse scenario, acting as a cushion against the projected losses.

The stress test results take into account the introduction of the new Capital Requirement Regulation III (CRR3), which includes the output floor. The [report](#) details the effects on the stress test outcome resulting from this regulatory change.

Integration into the Supervisory Review and Evaluation Process (SREP)

The stress test exercise produced qualitative and quantitative results. Qualitative results include the timeliness, accuracy and quality of data provided by banks. Supervisors will address these aspects when assessing banks' governance and risk management as part of the annual SREP. In line with [previous announcements](#), the ECB paid particular attention to the conservativeness of banks' submissions. In this year's stress test, banks generally submitted adequate stress test data, but many still face difficulties in aggregating granular, loan-specific data. In 2025, the ECB enhanced its review of submissions by conducting short-term on-site visits during the quality assurance process. As pre-announced at the launch of the exercise, after the stress test, selected banks will face more in-depth on-site inspections focusing on their stress testing capabilities. The inspections will be closely coordinated with other supervisory activities.

Meanwhile, the quantitative outcome of the stress test exercise is used as a starting point for the determination of the level of [Pillar 2 guidance \(P2G\)](#). The P2G is a bank-specific non-binding recommendation. It indicates the level of capital the ECB expects banks to maintain in addition to their [binding capital requirement](#). It seeks to ensure that a bank's own funds can absorb potential losses resulting from adverse stress scenarios.

The ECB also applies a P2G on the leverage ratio, to address the risk of excessive leverage. The aggregate leverage ratio of euro area banks decreased by 0.9 percentage points under the adverse scenario. It reached 5.0% by the end of the projection horizon, above the 3% minimum that is legally required. Leverage ratio P2G is imposed only for certain banks, for example where the projected leverage ratio falls below the overall leverage ratio requirement.

Counterparty credit risk exploratory scenario

The ECB complemented the 2025 stress test with a [counterparty credit risk \(CCR\) exploratory scenario analysis](#). This analysis examined how selected banks model CCR under diverse stress

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conditions and also aimed at better understanding the vulnerabilities stemming from interlinkages between the banking sector and non-bank financial institutions (NBFIs).

The analysis suggests that banks' stressed CCR exposures net of collateral are particularly sizeable vis-à-vis non-financial corporations and US-based NBFIs. The level of collateralisation in stressed CCR portfolios varies considerably across the banks. Furthermore, a scenario of euro depreciation against major foreign currencies tends to lead to higher CCR losses compared with a scenario of declining interest rates and with the EBA market risk scenario. At the same time, specific "wrong way" risk, in which the exposure to a particular counterparty correlates with its own probability of default rather than with general market risks factors, appears to be relatively limited at the current juncture.

Unlike the stress test, this exercise will not lead to the calculation of a capital depletion. Its findings, including on CCR risk management, will inform the supervisory dialogue with the participating banks.

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Notes

- In the 2025 stress test, the methodology for projecting net interest income over the three-year horizon was centralised for all banks, using a common approach prescribed by supervisors.
- Bank projections were calculated based on the accounting rules that were applicable as of 31 December 2024. However, since banks in the EU must comply with the revised CRR3 rules as of 1 January 2025, all participating banks were required to provide the starting points at year-end 2024 with values restated in accordance with CRR3. All CET1 capital ratios mentioned here primarily reflect the "transitional" basis according to CRR3 arrangements that will be gradually phased out by 2033.
- Regulatory changes related to the fundamental review of the trading book are not captured in the stress test as they had been temporarily deferred before the 2025 stress test methodology was finalised.
- To determine the P2G, ECB Banking Supervision applies a [two-step approach](#). In step 1, each bank is placed in a bucket based on its maximum CET1 capital depletion in the stress test. In step 2, supervisors determine the final P2G within the ranges of each bucket and, exceptionally, beyond them according to the specificities of each bank.
- To set the leverage ratio P2G, the ECB uses the leverage ratio projections in the adverse scenario of the stress test as a starting point and follow a similar two-step process as described for the P2G above.
- Net revenues capture the sum of net trading income, net interest income, net fees and commission income minus administrative expenses.
- The output floor is a regulatory measure that limits the extent to which banks can use their own internal models to compute their risk-weighted assets. Essentially, it sets a minimum level for the risk-weights derived from these models, ensuring that banks do not underestimate the risks they face.

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