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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 vulnerabilities, 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 scenario 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 euro area - representing about 75% of EU banks' total assets. The EU-wide stress test is conducted at the highest level of consolidation (group level).

Key methodological features

6. 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 fee 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.

7. 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 it 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. Banks had to restate their starting positions of end-2024 to the CRR3.

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, 2027[1]. Therefore, the FRTB is not considered in the 2025 EU-wide stress test.

The CRR3 allows for a progressive introduction of the new prudential requirements in targeted areas, whereby transitional arrangements are introduced to facilitate the implementation impact of the new requirements. These transitional arrangements will be in place beyond the three-year forecasting horizon of the 2025 EU-wide stress test. Against this background, the Report focuses on the applicable capital ratios, i.e. "transitional capital ratios", taking into account all the applicable transitional arrangements specified in the CRR3. For transparency, the Report also provides the CET1 capital ratios under the 2033 rules (the "fully loaded capital ratios"), noting that banks still have eight years to adjust towards full implementation. Section 2.4 of the Report provides more information on the stress test and the new regulatory framework.

8. 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 includes an assessment of credit risk losses at 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. The scenario narrative is tailored to impact heterogeneously sectors of economic activity based on their vulnerability to the envisaged scenario shocks. Therefore, banks should reflect the tailored scenario by industry sector in their stress test projections to identify potential pockets of risk. In this regard, the methodology was updated with renewed expectations about the modelling sophistication expected by banks when reporting the sectoral exposures template. The reporting thresholds were amended to increase the amount of exposures in scope of sectoral projections and to decrease the reporting gap between less and more diversified banks.

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

[1] Commission proposes to postpone by one additional year the market risk prudential requirements under Basel III - European Commission [2] One-off Fit-for-55 climate risk scenario analysis | European Banking Authority

NII projections are produced by applying the methodologically prescribed pass-through parameters in a centralised manner. This means that all banks, used the same formulas to reflect the impact of interest rates on the pricing of their assets and liabilities. 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.

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 introduced and deployed a platform that banks used to obtain the NII projections in a secured and controlled environment.

10. How does the EBA ensure consistency between both euro area and non-euro area 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 conducts 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).

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

The EU-wide stress test, coordinated by the EBA, differs from stress tests performed in other non-EU jurisdictions 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, to ensure conservativeness, the projections might be subject to constraints in the form of caps or floors. The EU-wide stress test also incorporates some top-down elements, such as projecting net fee and commissions income and net interest 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 banks' capital distributions.

Another distinct 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 for each participating bank, thus enabling stakeholders to perform detailed analyses.

Key features of the stress test scenarios

12. 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.

13. 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.

14. 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.

15. 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.

16. 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 monetary policy and fiscal policy reactions other than the ones considered under the baseline scenario

are not assumed under the adverse scenario. As a result, no information on future policy steps can be inferred from the adverse scenario.

17. Are climate risks considered in the EU-wide stress test?

Climate risks are not explicitly considered in the 2025 EU-wide stress test. However, in line with its founding regulation (Art. 23 and 32), the EBA is working in close cooperation with CAs to progressively embed climate related risks into its stress testing framework, starting from 2027. As a reminder, in 2024 the EBA together with, EIOPA, ESMA and ECB, worked on the one-off "Fit-for-55" climate risk scenario analysis, whose results were published jointly by the three ESAs in November 2024.[2]

Results

18. How do the 2025 stress test results compare to those released in previous stress test?

Since the 2023 stress test the overall sample of banks has remained relatively stable[3], which gives a good basis for comparison between the two exercises.

Under the baseline scenario, capital increases by 118 bps over the three years of the horizon, which is almost identical to the 2023 stress test for which the capital rise was 116 bps. The aggregate capital depletion at 370 bps under the adverse scenario is much lower than in 2023 (479 bps), mainly due to the stronger capital ratios (higher capital to REA) and absorption of impact through income, both explained by more robust starting points. The impact of credit risk losses - the main driver of the results - is higher in nominal terms than in the 2023 stress test as banks show more vulnerability in asset quality under the adverse scenario. The net interest income (NII) contribution is similar to the 2023 stress test, despite the higher starting point. This is due to the milder increase of short-term rates and the inversion of the yield curve which dampens interest income. The impact of market and operational risk was in line with the one in 2023 (however, market risk losses without considering any income recovery were higher in the 2025 stress test). The contribution of net fee and commission income is higher than in 2023, due to both higher starting point and slightly milder prescribed decrease under the adverse scenario. Net fee and commission income is projected based on a centralised top-down model.

19. How are commercial real estate exposures considered in the stress test?

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

[3] There are differences in the sample of banks between the 2023 and the 2025 EU-wide stress test. 70 banks were included in the sample in 2023 versus 64 in 2025. However, in both cases these banks represent around 75% of the EU aggregated assets. Moreover, the 61 common banks which participated in the 2023 and 2025 exercise account for 99% of the aggregate total assets of the full sample in 2025, and 98% in 2023. The total assets of 2025 sample are 3% higher compared to 2023. This implies that the two samples remain highly comparable across the last two exercises, despite the changes in the list of participating banks.

The adverse scenario assumes a sizeable adjustment in real estate prices which puts pressure on banks exposures secured by real estate. EU commercial and residential estate prices decline cumulatively -29.5% and -15.7% over the scenario horizon. On aggregate, the scenario has a large impact on commercial real estate exposures, with the ratio of stage 3 exposures rising from 4% at the starting point to 12.7% at the end of the adverse scenario. The share and the geographical composition of commercial real estate exposures varies across banks and thus, the scenario has heterogeneous effects on banks' credit loss projections. In this segment, the share of performing exposures allocated to stage 2 increases from 17.5% at the starting point to 23.2% at the end of the scenario. The increase is more pronounced than for exposures secured by residential real estate.

20. Which sectors are impacted the most by the adverse scenario?

The sectoral decomposition of banks' credit losses from non-financial corporations (NFCs) , which account for most banks' credit losses, allows to better understand the link between the scenario narrative and the impact on banks' capital. The narrative anticipates that more trade-intensive sectors and industries with high reliance on global value chains will experience the strongest decline in production. Secondary effects stemming from weaker and declining domestic demand further impact all sectors.

On aggregate, 39% of banks' NFCs exposures are towards the five sectors with the largest decline in gross value added (a measure of sectoral economic contribution) during the adverse scenario, such as manufacturing, transportation, agriculture, mining, and wholesale and retail trade. Thus, the resulting loss rates for these sectors are, on aggregate, higher compared to the loss rate for the other sectors.

21. What are potential insights about vulnerabilities in banks' non-financial corporations' exposures?

The scenario is the main driver of impact on banks' credit losses. Nevertheless, there are various aspects to consider.

Analysis of the banks' sectoral credit loss projections shows higher the sensitivity for the sectors which are the most vulnerable to the scenario narrative. This highlights a potential amplification of the scenario via these sectoral exposures. Moreover, existing vulnerabilities in banks' exposures can also amplify the scenario impact. Segments with lower credit quality at the starting point are more sensitive to the scenario impact and record higher loss rates.

It should be noted that credit risk parameters are scarcely modelled at the sectoral level. As a result, risk sensitivity in measuring corporate losses is limited. Banks should further develop their statistical capabilities to project sectoral losses and enhance their risk management to better capture vulnerabilities that may hide in parts of their corporate portfolios.

22. How does the scenario impact banks' net interest income in the stress test?

The 2025 stress test scenario features milder increases in interest rates compared to the 2023 stress test and assumes that the yield curve becomes inverted towards the end of the adverse scenario horizon. The higher short-term rates lead to a compression of banks' NII during the first year of the scenario as liabilities, which tend to be shorter-term compared to assets, reprice at the higher scenario interest rates. As the yield curve is assumed to be inverted, the subsequent repricing of assets is not sufficient to recover the initial losses in NII. As a result, NII ends up being lower at the end of the adverse scenario horizon. Banks also start the stress test with higher margins between assets and liabilities, and consequently NII, compared to previous exercises, which places them in a comfortable position to absorb losses.

Several channels play a role in how the interest rate scenario translates into each bank's NII projections. First, the maturity gap, the difference between the amount of assets and liabilities repricing over the scenario, is an important channel. Liabilities, tend to mature faster than assets leading to a faster increase in banks' funding costs compared to interest income. Second, the type of assets and liabilities dictates the sensitivity of interest income and expenses to the scenario when items mature. Banks which rely more on retail deposits tend to have lower funding costs over the scenario. On the flip side, banks holding more retail loans are less able to increase their interest income.

Disclosure

23. How are data and results 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 EBA released individual results for banks participating in the stress test along with detailed balance sheet and exposure data. In addition, the EBA has made available interactive tools as well as data files for further analytical use by market participants and has published an aggregate report of the results. The transparency provided through such disclosure will help market participants obtain insights into potential vulnerabilities.

24. Which information on sovereign exposures is disclosed?

The 2025 EU-wide stress test report includes a dedicated box, in section 4.4, which zooms in the impact of sovereign credit spreads and interest rate shocks on banks' sovereign debt holdings in their market risk portfolio (i.e., positions measured at fair value). In addition, at the end of the year, the EBA publishes the EU-wide transparency exercise which provides detailed information on bank-by-bank sovereign exposures.

25. Will there be any disclosure of actual data for banks not included in the EU-wide stress test?

The publication of stress test results for banks not in the EBA sample is a decision for CAs. The ECB-SSM will disclose further information on other 45 SSM Significant Institutions (SSM banks) that were not included in the EU-wide stress test sample.

On a similar note, the EBA will be conducting a transparency exercise in December 2025 on a wider sample of more than 120 EU banks. The exercise provides the wider public with a consistent tool to access actual data on the EU banking system and is an important component of the EBA's responsibility to monitor risks and vulnerabilities and foster market discipline. As in the previous exercises, the data will cover capital positions, risk exposure amounts, profitability, detailed sovereign exposures, and asset quality. The data will be published for four reference dates, September 2024, December 2024, March 2025 and June 2025. The publication of the 2025 EU-wide transparency exercise will also be accompanied with the release of the bi-annual EBA Risk Assessment Report.

Next steps

26. How will the stress test results feed into the 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 Pillar 2 Guidance (P2G and P2G-LR, respectively). 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.

27. 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 in the 2023 exercise of a top-down model for projecting net fee and commissions income, the EBA decided to centralise net interest income projections in the 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. Also, the plan is to work on reducing the burden of the exercise by connecting parts of reporting into the supervisory reporting framework. Furthermore, climate stress testing will be progressively integrated into the regular EU-wide stress test.