Grant Thornton

EBA 2025 EU – wide Stress Test

Breakdown of Methodology and Results[1]

Risk Advisory – Quantitative Risk Services

August 2025

[1] The EBA publishes the results of its 2025 EU-wide stress test

Introduction

To ensure the orderly functioning and integrity of financial markets and the overall stability of the EU financial system, the European Banking Authority (EBA) is tasked with monitoring market developments and identifying emerging risks and vulnerabilities at the micro-prudential level.

A core tool supporting this mandate is the **EU-wide stress test exercise**, which the EBA is empowered to initiate and coordinate under its Regulation. Conducted in cooperation with the ESRB, ECB, and European Commission, the stress test evaluates the **resilience** of financial institutions against **adverse economic scenarios** and contributes to a broader assessment of systemic risk within the EU.

The 2025 EU-wide stress test focuses on a severe macroeconomic downturn driven by a sharp escalation in geopolitical tensions and global trade fragmentation, simulating significant GDP contraction, rising inflation, and disruptions in supply chains to assess banks' capacity to absorb prolonged and compounded shocks. It also assumes high unemployment levels and sharp declines in asset prices, further amplifying stress across financial markets and the real economy.

EBA's Role in Stress Testing

The EBA plays a central role in safeguarding financial stability across the EU. One of its key responsibilities is conducting EU-wide stress tests to assess the resilience of banks under adverse economic scenarios.

2025 EU-wide stress tests

Objective

Ensuring the orderly functioning and integrity of financial markets and the stability of the EU financial system.

Mandate & Responsibilities

- Monitoring and assessing market developments.
- Identifying trends, risks, and vulnerabilities at the micro-prudential level.

Purpose of Stress Testing

- Assessing the resilience of financial institutions to adverse market conditions.
- Contributing to the systemic risk assessment in the EU.

Approach

- Bottom-up methodology
- Some parts of the exercise rely on top-down projections.
- Consistent scenarios, key assumptions, and methodologies across the EU.

Key Supervisory Tool

- Initiated and coordinated by EBA under its Regulation.
- In cooperation with European Systemic Risk Board (ESRB), European Central Bank (ECB), and European Commission (EC).

Breaking down the Methodology behind the 2025 EU – Wide Stress Test

The EU-wide stress test is an essential tool used by Competent Authorities (CAs) to evaluate the resilience of EU banks to severe but plausible shocks, identify residual vulnerabilities, and inform the supervisory decision-making process for appropriate mitigation actions. This stress test also enables CAs to determine whether the capital accumulated by banks in recent years is sufficient to cover losses and support the economy during stressed periods.

A. Methodology

Scope of the 2025 Exercise

Includes 64 banks, covering 75% of total EU banking assets, with 51 banks from the euro area.

Reference Date

Based on financial data as of 31 December 2024; Conducted at the highest level of consolidation.

Projection Horizon and Scenarios

Evaluates bank performance over 3 years under both baseline and adverse scenarios.

Static Balance Sheet Assumption

Assumes no changes in size or structure—banks are tested as if operating under their current business models.

Risk Assessment and Modelling Framework

Risk and Income Impact Estimation

Banks estimate effects on credit, market, and operational risks, and forecast impacts on income streams.

Key Outcome: CET1 Capital

Focuses on Common Equity Tier 1 (CET1) as a measure of capital strength and loss-absorbing capacity.

Modelling Approach and Constraints

Banks use internal models within a strict framework set by the EBA, ECB, and national authorities.

B. The Adverse Scenario

Adverse Scenario Design

The 2025 EU-wide stress test features a **historically severe adverse scenario**, reflecting global macro-financial deterioration driven by heightened geopolitical tensions, trade fragmentation, and persistent supply shocks.

Designed in collaboration with the ESRB, EBA, and ECB, the scenario is hypothetical but based on severe yet plausible assumptions to stress key vulnerabilities across all EU countries.

Key features of the adverse macro-financial scenario

- EU GDP: Contracts by 6.3% from 2024 to 2027.
- Unemployment: Rises by 5.8 percentage points over the same period.
- Inflation: Rises above baseline by 2.6 ppts (2025) and 1.5 ppts (2026), then drops 0.2 ppts below baseline in 2027.
- Long-term interest rates: Increase by 150 bps from end-2024 to end-2027.
- Stock prices: Drop sharply by 50% (2025), 46% (2026), and 42% (2027).
- Real estate prices: Decline by 15.7% (residential) and 29.5% (commercial) over three years.

Breaking down the Methodology behind the 2025 EU – Wide Stress Test

C. New features introduced in the 2025 EU-wide stress test

The methodology has undergone some important changes compared to the 2023 stress test. These changes were needed to integrate the Capital Requirements Regulation (CRR3) and to enhance key methodological aspects of net interest income (NII), market risk, operational risk and administrative expenses projections.

Under the revised methodology, binding formulas are applied to determine the evolution of interest rates on assets and liabilities throughout the scenario horizon.

To enhance the granularity of projections, a new template for administrative expenses was introduced, requiring banks to provide a breakdown by expense category and geographical region.

The calibration of the minimum loss floors used in operational risk projections has been adjusted to better reflect risk sensitivity.

For market risk, a more risk-sensitive approach has been implemented to better capture banks' exposures under stress scenarios.

A revised scope was implemented for net interest income (NII) and projections have been centralised.

The methodology is applied in a standardised manner, while allowing for targeted bottom-up input from banks to account for their individual specificities.

D. Stress test and the new regulatory framework

Incorporation of EU Banking Package

- The stress test reflects the application of the EU banking package (CRR3 and CRD VI), effective from 1 January 2025. Banks were required to restate their end-2024 starting positions under CRR3.
- While this ensures alignment with the new regulatory framework, the stress test remains primarily a risk assessment exercise.

Transitional Arrangements under CRR3

- The CRR3 regulation is introduced gradually through transitional measures, allowing banks to adjust over time. The report reflects applicable capital ratios under these transitionals, which progressively tighten until full implementation by 2033.

- The impact to the EU aggregated CET1 ratio from CRR2 to CRR3 restatement at end-2024 is:
  - +3 bps on a transitional basis (minimal impact)
  - −129 bps on a fully loaded basis, mainly due to the output floor.

CRR3 Implementation and Capital Ratios

- Banks applied CRR3 rules at the start of the stress test and throughout the projection horizon.
- The report focuses on capital ratios under transitional arrangements.
- "Fully loaded" capital ratios reflect the 2033 CRR3 rules, excluding transitional adjustments.
- Banks have an 8-year transition period to fully align with CRR3 requirements.

Guide For Data Exploitation

Upon the release of the 2025 EU-wide stress test results on 1 August, the EBA published the metadata, data dictionary, and guide for data exploitation. These resources aim to support users in automating the analysis of the published stress test data.

The main results of the 2025 EU-wide Stress Test are made publicly available on the EBA's webpage through various CSV files and accompanied by metadata and data dictionaries to facilitate user analysis. In addition, the EBA has made available a range of practical tools, based on PowerBI, to facilitate the use of the stress test data.

Primary Objectives

- Enabling automated and reproducible analysis of the complete stress test dataset
- Streamlining cross-bank and cross-sector comparisons
- Assisting analysts in identifying key risk drivers:
  - Capital depletion
  - Credit and market risk breakdowns
  - Bank-level vs system-wide vulnerabilities

Interactive Tools

- Overview with main results.
- Tools with individual Templates, bank by bank comparison and EU/country aggregates.

Power BI

Key Supporting Materials

- Metadata File
  - ✓ Explains the structure of published datasets.
  - ✓ Lists variable names, formats, and field definitions.
- Data Dictionary
  - ✓ Defines all stress test indicators and variables (e.g. CET1 ratio, RWAs, impairments).
  - ✓ Includes units of measurement, aggregation level, and reporting conventions.
- CSV Guide for Data Exploitation
  - ✓ Clarifies folder hierarchy and CSV file naming structure.
  - ✓ Provides examples for data parsing and scripting.
  - ✓ Highlights reporting scope, e.g. time horizons, templates, and asset classes.
  - ✓ Supports users in automating ingestion and analysis of published datasets.

Full Database

- CSV Files
- Matadata
- Data dictionary
- Manual

EU – Wide Stress Test Results

On 1 August, the EBA released the results of its 2025 EU-wide stress test, confirming that European banks remain resilient even under a severe hypothetical economic downturn. Despite losses of EUR 547 billion, EU banks maintain strong capital positions and the capacity to continue supporting the economy.

A. Key Findings

01
The results of the 2025 EU-wide stress test indicate that the largest EU banks would be resilient to a severe hypothetical stress scenario.

02
The EU banking system would have the capacity to continue to support the EU economy in stressed times.

03
Despite bearing combined losses of EUR 547 bn during the 3-year horizon, EU banks show strong income generation during the exercise.

04
EU banks maintain a CET1 ratio above 12.1% (in aggregated 16.9%) at the end of the adverse scenario, showing resilience and capacity to support lending during crises.

05
The adverse scenario affects economic sectors differently through rising energy and commodity prices and heightened trade tensions.

06
Strong performance of the EU banks in the 2025 EU-wise stress test is reassuring, nonetheless, this should not lead to complacency among banks or supervisors.

B. Main Findings - Credit Risk

Increase in risk exposure amounts driven by credit risk

- Under the adverse scenario, total risk exposure amounts (REA) increases by 9.6%.
- Increased credit risk REA is the main contributor. The credit risk REA impact is more pronounced for portfolios under the internal ratings-based (IRB) approach.
- Output floor is not binding for any bank, given transitional adjustment on the multiplicative factor and other transitional arrangements to REA.
- On fully loaded basis the output floor would start to bind some banks, resulting in a larger aggregate REA.

Total Credit Risk Losses

- EUR 394 billion under the adverse scenario.
- Highest impact in the first year due to front-loaded macroeconomic shock assumptions.

Capital Impact:

- ✓ Credit losses account for 1.9% of total exposures (end of 2024).
- ✓ Lead to 437 basis points (bps) CET1 capital depletion.
- ✓ Wide variation across banks: from -828 bps to -10 bps.

Comparison with 2023 Stress Test:

- ✓ 2025 losses are 15% higher than 2023 (EUR 394bn vs EUR 347bn).
- ✓ Driven by more severe scenarios and weaker starting credit quality.

How can Grant Thornton support you?

We help institutions assess capital adequacy, identify vulnerabilities, and enhance governance using insights from the EBA stress test. Our support focuses on supervisory alignment, risk quantification, and integration into internal planning.

Stress Test Governance & Strategic Integration

Embedding stress test outcomes into ICAAP, risk appetite, and management planning in line with supervisory expectations.

Capital Impact Analysis

Benchmarking CET1 depletion against peers and perform institution-specific breakdown of drivers under the adverse scenario.

Data & Methodology Review

Review of data submissions, stress assumptions, and model calibrations to ensure alignment with EBA methodology.

Scenario Design Support

Supporting the development of internal stress scenarios aligned with EBA's static balance sheet assumptions and risk factors.

Recovery & Action Planning

Translate stress test results into concrete risk mitigation, recovery options, and forward-looking capital planning..

Control Frameworks & Assurance

Assistance in strengthening internal controls and audit readiness for stress test documentation, traceability, and Board-level reporting.

Contact

Our team specialises in supporting institutions with the implementation and interpretation of the EBA stress test. From understanding methodological constraints and scenario design to credit risk modelling, data processing, and results analysis, we provide flexible support across the entire stress testing process. We help clients automate data handling, validate internal projections, and align reporting with regulatory expectations. Let us support you in navigating the complexity of the EBA stress test and strengthening your capital planning and risk management capabilities.

Melpo Konnari
Partner,
Advisory
T +357 22 600 123
E melpo.konnari@cy.gt.com

Dwayne Price
Partner,
Financial Services Advisory
T +353 (0)1 436 6494
E dwayne.price@ie.gt.com

Andreas Spyrides
Partner, Risk Advisory,
Quantitative Risk Cyprus
T +357 22 600 270
E andreas.spyrides@cy.gt.com

Jonathan Fitzpatrick
Partner,
Risk Advisory, Ireland
T +353 1 680 5805
E jonathan.fitzpatrick@ie.gt.com

Vivian Lagan
Managing Director, BRS
Model Risk Management and
Co-source Services
T +44 (0)20 7865 2240
E vivian.lagan@uk.gt.com

Ravi Joshi
Partner, Co- Source Internal
Audit Services, Financial
Services, UK
T +44 (0)20 7865 2571
E ravi.joshi@uk.gt.com

Rob Benson
Partner, Business Risk Services,
UK
T +44 (0)20 7865 2415
E rob.m.benson@uk.gt.com

Eddie Best
Partner, UK Practice Leader
and Head of Advisory KSA, UK
T +44 (0) 20 7728 2849
E eddie.j.best@uk.gt.com

Lukas Majer
Director, Head of
Quantitative Risk Spain
T +353 (0)1 646 9006
E lukas.majer@ie.gt.com

Paul Young
Managing Director,
FS BRS, UK
T +44 (0)20 7865 2781
E paul.l.young@uk.gt.com

Michalis Zaouras
Senior Manager, Risk Advisory,
Quantitative Risk Cyprus
T +357 22600204
E michalis.zaouras@cy.gt.com

Maria Yiasouma
Manager, Risk Advisory,
Quantitative Risk Cyprus
T +357 22 600 161
E maria.yiasouma@cy.gt.com

Christina Savva
Assistant Manager, Risk
Advisory, Quantitative Risk
Cyprus
T +357 22 600 271
E christina.savva@cy.gt.com

Ioanna Stavrou
Assistant Consultant, Risk
Advisory, Quantitative Risk
Cyprus
T +357 22 600 213
E ioanna.stavrou@cy.gt.com

Offices in Cyprus, UK, Ireland, and Spain

linkedin.com/company/**grantthorntoncy**

twitter.com/**grantthorntoncy**

facebook.com/**grantthorntoncyprus**

instagram.com/**grantthorntoncy**