

# EBA 2025 EU – wide Stress Test Breakdown of Methodology and Results<sup>1</sup>

Risk Advisory – Quantitative Risk Services

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# Introduction

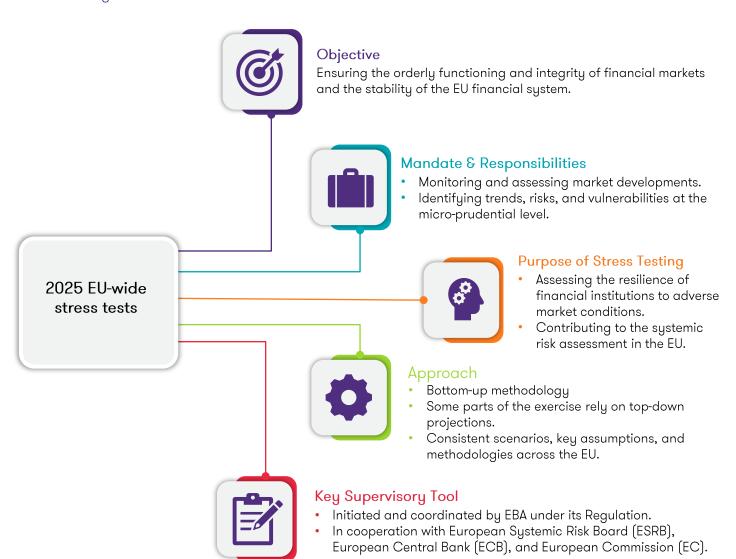
To ensure the orderly functioning and integrity of financial markets and the overall stability of the EU financial system, the European Banking Authority (EBA) is tasked with monitoring market developments and identifying emerging risks and vulnerabilities at the micro-prudential level.

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**

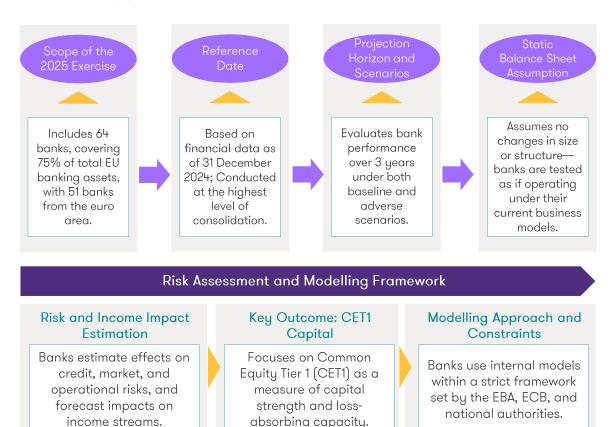
The EBA plays a central role in safeguarding financial stability across the EU. One of its key responsibilities is conducting EU-wide stress tests to assess the resilience of banks under adverse economic scenarios.



# 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



#### **B.** The Adverse Scenario

#### Adverse Scenario Design

Key features of the adverse macro-financial scenario

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.

- 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.

To enhance the granularity of projections, Under the revised methodology, binding a new template for administrative formulas are applied to determine the expenses was introduced, requiring banks evolution of interest rates on assets and to provide a breakdown by expense liabilities throughout the scenario horizon. category and geographical region. For market risk, a more risk-The calibration of the minimum loss floors sensitive approach has used in operational risk projections has been been implemented to better adjusted to better reflect risk sensitivity. capture banks' exposures under stress scenarios. A revised scope was The methodology is applied in a implemented for net standardised manner, while allowing for interest income (NII) targeted bottom-up input from banks to and projections have

account for their individual specificities.

#### D. Stress test and the new regulatory framework

been centralised.

**Transitional Arrangements** Incorporation of EU **CRR3** Implementation under CRR3 Banking Package and Capital Ratios Banks applied CRR3 rules at the The stress test reflects the The CRR3 regulation is start of the stress test and introduced gradually application of the EU banking throughout the projection package (CRR3 and CRD VI), through transitional horizon. effective from 1 January 2025. measures, allowing banks to The report focuses on capital Banks were required to restate adjust over time. The report ratios under transitional reflects applicable capital their end-2024 starting positions arrangements. under CRR3. ratios under these "Fully loaded" capital ratios While this ensures alignment with transitionals, which reflect the 2033 CRR3 rules, the new regulatory framework, progressively tighten until excluding transitional the stress test remains primarily full implementation by 2033. adjustments. a risk assessment exercise. Banks have an 8-year transition The impact to the EU aggregated CET1 ratio from CRR2 to CRR3 period to fully align with CRR3 restatement at end-2024 is: requirements. o +3 bps on a transitional basis (minimal impact) o -129 bps on a fully loaded basis, mainly due to the output floor.

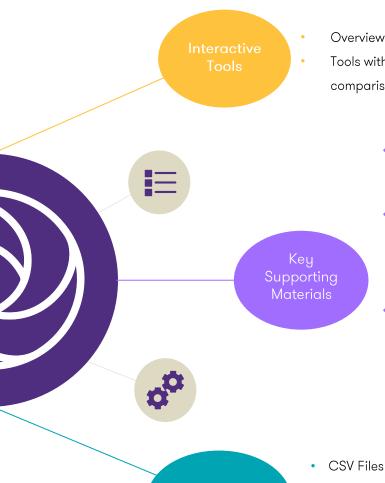
# **Guide For Data Exploitation**

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.



- 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



Full Database

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



#### 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.



- 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

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

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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.

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

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

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

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.

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#### **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 RFA
- 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.



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

Data &

with EBA

Review of data

submissions, stress

model calibrations to

assumptions, and

ensure alignment

methodology.

Benchmarking CET1 depletion against peers and perform institutionspecific breakdown of drivers under the adverse scenario.

#### Stress Test Governance & Strategic Integration

Recovery & Action

Planning



Capital Impact

Analysis

Control

Frameworks & Assurance

#### 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 condrete risk mitigation, recovery options, and forward-looking capital planning.

### Control Frameworks &

Assistance in strengthening internal controls and audit readiness for stress test documentation, traceability, and Boardlevel 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.



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