Insight: EBA EU-Wide Stress Test 2027 Consultation Paper

Risk Advisory - Quantitative Risk Services

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Introduction

On 11 June 2026, the European Banking Authority (EBA) published the draft methodology, templates and template guidance for the 2027 EU-wide stress test, opening an industry consultation earlier in the process than for any previous exercise[1]. According to the EBA, the aim is to give banks more time to prepare before the exercise itself begins, and the early release follows feedback gathered from the industry in consultations held in May 2026.

The EBA describes the 2027 exercise as introducing "significant simplifications to improve efficiency and risk sensitivity, while preserving the robustness and comparability of results." Three points stand out from the EBA's own announcement:

- A lighter reporting burden: The draft methodology cuts the number of required data points by 55% compared with the 2025 exercise. This is achieved mainly by reusing information banks already submit through regular supervisory reporting (FINREP and COREP), rather than asking for it again in bespoke stress-test templates — part of a wider EBA programme called "Simplifying to strengthen."
- Climate risk, for the first time: The 2027 exercise will incorporate both transition risk and physical (flood) risk through a dedicated climate module, run alongside the usual macro-financial adverse scenario. The EBA is careful to note that, at this stage, the climate module will not affect the headline stress-test results (e.g., banks' capital ratios), it is being run as a separate, complementary assessment, described as a first step toward folding climate considerations into day-to-day supervision.
- Same scale, same purpose: As in previous years, 63 banks from the EU and Norway (47 of them euro-area institutions) will take part, covering around 75% of the EU banking sector. The results will continue to feed into supervisors' assessments of individual banks (the SREP), and the exercise keeps its "constrained bottom-up" design — banks run their own models, but within strict common rules set by the EBA.

Why should Banks welcome these changes?

There is a real upside for institutions in this draft.

- Less duplication: stress-test-specific data points cut by over half, by drawing on FINREP and COREP data banks already submit.
- More preparation time: the earlier-than-usual consultation gives banks a longer runway to adapt before the methodology is finalised.
- An introduction to climate risk: the new climate module runs separately and does not affect headline capital results at this stage.
- Simplified rules: rigid requirements, such as the fixed risk-weight add-on for securitisations, are being simplified or removed.
- Better alignment with everyday reporting: the stress test moves closer to banks' existing reporting frameworks — a development the industry has long advocated for.

1 https://www.eba.europa.eu/publications-and-media/press-releases/eba-launches-early-consultation-simplified-eu-wide-stress-test-climate-risk-integration

Big Picture — What Changed?

Item	2025 (Final)	2027 (Consultation paper)
Reference (starting-point) date	31 December 2024	31 December 2026
Stress horizon	2025–2027 (3 years)	2027–2029 (3 years)
Sample coverage	~75% of EU+Norway banking sector by assets (as of end-2023)	~75% of EU+Norway banking sector by assets (as of end-2025); 63 banks, 47 euro-area
Minimum bank size	EUR 30bn	EUR 30bn (unchanged)
Common tax rate	30%	30% (unchanged)
Hurdle rates	None defined; feeds into SREP	None defined; feeds into SREP (unchanged)
Static balance sheet	Yes	Yes (unchanged)
Risk coverage	Credit (incl. securitisation), market/CCR/CVA, NII, conduct & other operational risk, non-interest income & capital	Same five areas **plus a new climate risk module**
Climate risk	Not part of core methodology	**New dedicated chapter** (Ch. 7): **transition risk** (NFC exposures) + **physical/flood risk** (RE & NFC loans)
Data points required	As per 2025 Exercise	**−55%** vs. 2025, via materiality thresholds & reuse of FINREP/COREP data
Securitisation REA treatment	Prescribed **fixed risk-weight increase** applied on top of the 2024 floor	Fixed risk-weight increase **removed;** simply floored at 2026 starting value (like other portfolios)
CCR counterparty default assumption	Default of the **3 most vulnerable** counterparties out of the **10 largest**	Default of a bank-specific **2 to 5** counterparties out of the **40 largest**, based on portfolio riskiness
Market risk REA framework (headline)	VaR (baseline) / SVaR (adverse), IRC, SA-CVA/BA-CVA, APR	Sensitivities-Based Method (SBM), Default Risk Charge (DRC), CVA, RRAO — i.e. full move to the FRTB framework as the primary basis
Sector (NACE) credit-risk breakdown	CSV_CR_SECTOR limited to mortgage/ADC/SME real-estate-linked exposures, NACE Rev.2	CSV_CR_SECTOR broadened to **all NFC exposures**, NACE Rev.2.1 **plus** high-/low-energy-intensive manufacturing split (climate-relevant)
Conduct/operational risk historical window	2020–2024	2022–2026 (rolling forward, same logic)
Proportionality: country breakdown for smaller banks	Min of (75% of exposure) OR (top 3 countries)	Simply **top 3 countries**, 75% test dropped
Proportionality: securitisation reporting threshold	Simplify if securitisation REA/exposure < **10%** of total	Simplify if securitisation REA/exposure < **5%** of total (tighter — fewer banks qualify)
Proportionality: NII country/currency pairs (general requirement)	Up to 50 pairs	Up to 20 pairs (lower burden for everyone, narrows gap with proportionality regime)

Same Skeleton, New Dates

The overall architecture of the stress test: who takes part, how the exercise is run, and the basic rules banks must follow, is carried over from 2025 almost unchanged. The main difference is that every date has been rolled forward by two years, with one small but telling exception in how securitisations are framed.

Reference Date & Horizon

- The starting point moves from 31 December 2024 to 31 December 2026, and the projection horizon shifts from 2025-2027 to 2027-2029.

Sample & Coverage

- The same ~75% coverage logic applies, based on banks' total assets as of end-2025 instead of end-2023; the EUR 30bn minimum size threshold is unchanged.

Core Design Principles Unchanged

- Static balance sheet, no hurdle rates (results feed into the SREP), a common 30% tax rate, and the same pro-forma rules for mergers, acquisitions and divestments.

A Quiet Drop

- The 2025 note flagged a "prescribed increase in REA for securitisation exposures" as part of the credit risk methodology; the equivalent line in the 2027 draft mentions only the prescribed sovereign shocks.

Credit Risk: Lighter on Securitisations, Heavier on Sector Data

Credit risk remains the backbone of the exercise, and its core engine, projecting how loans move between performing and non-performing categories and how much banks need to set aside in provisions , is unchanged. **But two specific areas move in opposite directions: securitisations get simpler, while sector-level reporting gets richer to support the new climate module.**

Core Methodology

The IFRS 9-based projection of stage transitions (S1/S2/S3), the ban on releasing provisions for non-performing loans, the rule against "curing" defaulted loans, and the REA floor at the starting-point value all carry over with dates updated.

Securitisation rules simplified

In 2025, banks had to apply a prescribed fixed risk-weight increase to securitised exposures on top of the usual floor. In the 2027 draft, this add-on is removed entirely, securitisation REA is simply floored at the 2026 starting value, consistent with the treatment applied to other portfolios.

Sector (NACE) reporting expanded

The sector-level credit data template, previously limited to mortgage, real-estate and SME exposures, now covers all corporate exposures, uses an updated sector classification, and adds a split between high- and low-energy-intensive manufacturing — laying the groundwork for the climate module

More reliance on supervisory data

A parallel consultation on FINREP reporting is explicitly designed to let banks' starting-point credit data come from information they already report quarterly, rather than a separate stress-test submission.

Market Risk: A Modernised Capital Framework

Market risk sees one of the more technical but meaningful shifts in the draft: the way capital requirements are calculated under stress moves onto the **newer FRTB-based framework**, and the **assumptions about counterparty defaults become more tailored to each bank's risk profile.**

New capital framework as the default

In 2025, market-risk capital impacts were still described mainly in terms of the older VaR/stressed-VaR/IRC framework. The 2027 draft describes the same impacts using the newer Sensitivities-Based Method, Default Risk Charge and Residual Risk Add-On, the building blocks of the FRTB regime, reflecting that these rules are expected to be fully in force by 2027.

Counterparty defaults made more risk-sensitive

2025 assumed a fixed three counterparties would default, chosen from each bank's ten largest exposures. The 2027 draft widens the pool to the 40 largest counterparties and lets the number of assumed defaults vary between two and five, depending on how risky the bank's own book is.

Everything else carried over

The rules for revaluing trading positions, treating valuation reserves (CVA/FuVA), and capping client revenue projections at 80% of the three-year average are unchanged.

Net effect

Simplification does not automatically reduce complexity in every case, for banks with riskier portfolios, the revised counterparty-default rule could prove more demanding than before.

Net Interest Income: Steady as Before

NII sees the least change of any risk area between 2025 and 2027. It suggests the EBA regards the current framework built around separating reference-rate and margin components and anchoring both to sovereign spreads as fit for purpose.

Same building blocks

The split between "reference rate" risk (general interest-rate moves) and "margin" risk (the premium banks charge over that rate) is unchanged, as is the rule that NII cannot increase under the adverse scenario.

Change for Smaller banks

The general requirement to report NII by country/currency pair drops from up to 50 pairs to up to 20, narrowing the gap with the simplified rules already available to smaller institutions (which stay at 5 pairs).

The reference window's change

Historical averages used as benchmarks (e.g. for trading-related NII) simply shift forward by two years, from a 2022-2024 base to 2024-2026.

Same sovereign-spread mechanism

The way banks' funding costs and lending margins respond to changes in their country's sovereign bond spread is carried over without substantive change.

Conduct and Operational Risk: Business as Usual

Conduct and other operational risk — covering matters such as litigation, regulatory fines, fraud and IT failures — carries over almost unchanged from 2025. The definitions, the floors on projected losses, and the cap on operational risk capital requirements all remain in place; **only the historical reference period used to calculate loss averages moves forward by two years.**

Same qualitative/quantitative split

Banks with a recent material conduct event still follow the more detailed "qualitative" approach; others use the simpler "quantitative" one

Same floors & caps

Minimum loss projections based on historical averages (with a stress multiplier in the adverse scenario), and the rule that total operational-risk capital requirements stay flat at the starting level, are both retained.

Historical window shift

The look-back period for calculating historical loss averages moves from 2020-2024 to 2022-2026 — a routine two-year roll-forward, nothing more.

Climate Risk: A New Chapter

The most consequential addition to the 2027 methodology is an entirely new chapter on climate risk — the first time the EU-wide stress test will assess both transition risk and physical risk, such as flooding, in a structured way. Fulfilling a long-signalled EBA mandate, the module is a deliberately cautious first step: it runs alongside the standard adverse scenario but does not yet feed into banks' headline capital results.

Climate Risk

Legal basis & ambition

The module fulfils the EBA's mandate to factor environmental risk into stress testing and is explicitly described as the first step in a gradual, multi-year integration of climate risk.

Two risk types covered

Transition risk looks at how a sudden, disorderly shift in climate policy would hit corporate borrowers in carbon-intensive sectors over the full 2027-2029 horizon; physical risk looks at a one-in-a-hundred-year river flood event, applied as a one-off shock in 2027 only.

Who's affected?

The module focuses on loans to non-financial companies and on real-estate-secured lending (including a breakdown of mortgages by how energy-efficient the underlying property is).

How it's applied?

Climate shocks are layered on top of — not instead of — the normal adverse macro-financial scenario, and banks can choose between two ways of modelling the transition shock (carbon-price/energy-price paths, or sector-by-sector economic output shocks).

Limited Concpet, for now

Crucially, the module only affects projected profit-and-loss (via credit losses) — it does not change capital requirements (REA) and does not touch market risk, and banks cannot assume any mitigating actions like building retrofits.

**The actual numbers — carbon price paths, flood maps, emission pathways — are not in this draft; they will come with the full climate scenario package, not yet published.*

The 2025 Adverse Scenario: How Severe Was It?

The 2025 adverse scenario sets the benchmark against which any future EU-wide stress test, including 2027, will likely be judged. Built around an escalation of geopolitical tensions — trade wars, conflict in the Middle East, and the war in Ukraine — it modelled a severe global slowdown transmitted through energy prices, financial markets and falling property values.

The 2025 adverse scenario was built around an escalation of geopolitical tensions — trade wars and tariffs, conflict in the Middle East, the war in Ukraine — triggering a global slowdown, an energy price shock, financial market turmoil and falling property prices.

- EU real GDP falls cumulatively by 6.3% over 2024-2027 (a 10.4% gap versus the baseline by 2027), while EU unemployment rises by a median of around 6 percentage points across member states.
- EU inflation spikes to 5.0% in 2025 before easing back to 1.9% by 2027; EU stock prices crash by 50% in 2025 and remain 42% below their starting level even by 2027.
- EU residential property prices fall by almost 16% cumulatively, while commercial property prices fall by nearly 30% — with commercial real estate consistently hit harder than residential across the whole exercise.

The EBA judged the 2025 scenario to be "slightly more severe" than 2023 in GDP terms, but with notably wider differences between countries than in previous exercises.

Cyprus Under the 2025 Stress Test

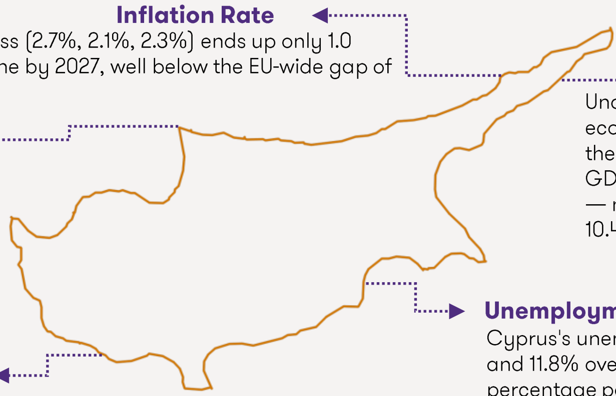
The EBA's scenario is built and applied uniformly across all 27 EU member states — there is no country-specific narrative or rationale. What varies is how that single shock translates into each country's economy and financial system, shaped by structural factors such as export exposure, household debt, real estate valuations and sovereign risk pricing. For Cyprus, this means the same global trade-and-confidence shock that hits the EU as a whole produces a noticeably different — and in several respects harsher — domestic outcome.

Inflation Rate

Cyprus's inflation path under stress (2.7%, 2.1%, 2.3%) ends up only 1.0 percentage point above its baseline by 2027, well below the EU-wide gap of nearly 4 points.

GDP

Under the adverse scenario, Cyprus's economy contracts by 2.5%, 4.7% and then grows 0.7% in 2025-2027, leaving GDP 14.6% below its baseline level by 2027 — notably worse than the EU-wide gap of 10.4%.



Property Prices

Residential property prices drop a cumulative 17.9% (a 25.7% gap versus baseline by 2027), while commercial property prices fall an even steeper 31.1% cumulatively — both broadly in line with, or slightly worse than, the EU averages.

Unemployment Rate

Cyprus's unemployment rate climbs to 8.3%, 11.6% and 11.8% over the three years, a cumulative rise of 6.7 percentage points — again above the EU median of around 6 points.

Borrowing Costs

Cyprus's 10-year government bond yield under stress reaches 4.87% in 2025, above the euro-area average of 4.63%, reflecting the country's relative sovereign risk premium.

Cyprus in the 2027 based on Consultation paper

The draft methodological note contains no country-specific figures for Cyprus, or indeed for any country — by design, this document sets the common rules for all participating banks, while the macro-financial scenario itself, with its country-by-country figures, is a separate deliverable still to be published, as was the case in January 2025.

Based on the draft methodology published in June 2026, the exercise will run over 2027–2029 with 31 December 2026 as its starting point, and for the first time will pair the macro-financial scenario with a climate scenario covering both transition and flood risk. That physical-risk component is designed to apply across all EEA countries simultaneously, so Cypriot banks should expect to assess flood exposure in their portfolios once the relevant data is released — even though no figures for Cyprus exist in this Consultation paper yet.

What Comes Next?

Several of the most consequential elements — including the macro-financial and climate scenarios that will determine the exercise's actual severity — are still unpublished. The closclosely linked consultation on the underlying reporting changes does have a defined closing date, offering the clearest near-term signal of how the process will unfold. Everything described above is a consultation draft, published 11 June 2026— not the final methodology, and subject to change based on industry feedback.

Still to come

The actual macro-financial adverse scenario and the climate scenario (carbon prices, flood maps, emission paths) are separate deliverables, not yet published, expected closer to the formal launch of the exercise.

A date to watch

The closely linked consultation on the supervisory-reporting changes underpinning the "-55% data" claim closes on 10 July 2026 - a practical marker for when this round of feedback wraps up.

For the EU more broadly, two things will determine the ultimate impact of this exercise.

- First, how severe the 2027 macro-financial scenario turns out to be relative to 2025, which will determine both the credibility of the exercise and the scale of capital impact banks need to absorb.
- Second, how severely the climate module's shocks are calibrated once the underlying data is published, and whether this first iteration will have a material impact on banks' capital requirements.

How can Grant Thornton support you?

As the 2027 EU-wide stress test moves through consultation toward a final methodology, banks face both an opportunity and a tight runway: the chance to run a leaner, more data-efficient exercise, and a limited window to adapt models, data and processes before the rules are locked in. We provide end-to-end advisory support to help institutions navigate this transition — from assessing the impact of methodological changes to building the data and modelling capabilities the new climate risk module will require.

Methodology Gap Assessment

Assess your current stress-test approach against the 2027 draft methodology — including the securitisation REA change, the revised counterparty-default rule, and the FRTB-based market risk framework — and quantify the impact on capital projections.

Data & Reporting Alignment

Support the mapping of stress-test data needs onto FINREP, COREP and ESG reporting structures ahead of the proposed move to fuller integration, reducing duplicate submissions and reconciliation effort.

Climate Risk Module Design

Help build the sector classifications, energy-performance data and modelling approach needed for the new transition and physical-risk module, including NACE sector mapping and energy-intensity splits.

Adverse Scenario Application & Risk Translation

Help translate the published adverse macro-financial and climate scenarios into bank-specific shocks across credit, market, NII and operational risk parameters, ensuring consistent application throughout your models and reporting.

Capital Impact & Disclosure

Model the likely impact of the finalised methodology on projected capital ratios once results are published, and prepare the supporting analysis and disclosures needed for market communication, board reporting and SREP follow-up discussions with supervisors.

Proportionality & Streamlining

Identify which simplified thresholds — securitisation, country breakdowns, currency pairs — apply to your institution, and redesign internal stress-test processes to capture the resulting efficiency gains.

Contact

Our team specialises in supporting institutions through every stage of the EU-wide stress test cycle, from methodology interpretation and data readiness to model validation and capital impact analysis. With dedicated quantitative risk specialists across Cyprus, the UK, Ireland and Spain, we help banks translate evolving EBA requirements — including the 2027 methodology and its new climate risk module — into practical, well-governed processes.

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