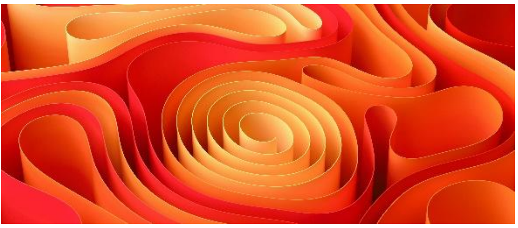
Pills

Regulatory/Supervisory Pills | N.125 September 2025



TOPICS:

Stress Test

SOURCE

European Banking Authority

The EBA Publishes the Results of its 2025 EU-wide Stress Test

- On 1 August 2025, the EBA released **the results of its EU-wide stress test**, assessing 64 banks across 17 EU and EEA countries, representing 75% of EU banking sector assets. The exercise, designed **to evaluate the resilience of banks under a severe macroeconomic shock**, revealed that despite cumulative losses of €547 billion under the adverse scenario, **EU banks maintain robust capital positions and remain capable of supporting the real economy**.
- **The stress scenario simulated a significant downturn driven by intensifying geopolitical tensions, escalating protectionism, and persistent supply shocks**. This led to a projected 6.3% decline in EU GDP and a 5.8% increase in unemployment by 2027. Despite these conditions, **the Common Equity Tier 1 (CET1) capital ratio declined by 370 basis points to 12% - a level above regulatory minimum**.
- **Strong initial profitability** (10.5% return on equity in 2024) **and improved capital buffers** (16% CET1 ratio) **allowed banks to absorb adverse impacts**. Net earnings provided a substantial buffer, increasing CET1 by 509 bps by end-2027, offsetting losses primarily driven by credit risk (€394bn) and market risk (€98bn). Operational risk losses were lower, totalling €54.8bn.
- **Sectoral analysis revealed that credit losses were most pronounced in consumer loans, SMEs, and commercial real estate**, with real estate accounting for 19.5% of corporate exposures and 15.5% of non-financial corporation losses. Retail banks exhibited greater net interest income resilience due to large deposit bases.
- The EBA highlighted **improvements in risk sensitivity and sectoral modelling**, though noted further enhancement is needed. Results serve as input for the Supervisory Review and Evaluation Process (SREP), supporting competent authorities in assessing banks' capital adequacy under stress.
- **The 2025 methodology incorporated enhancements aligned with the new CRR3/CRD VI regulatory package**, which entered into force in January 2025, ensuring more risk-sensitive assessments. Full transparency was provided via detailed bank-level disclosures and interactive tools.