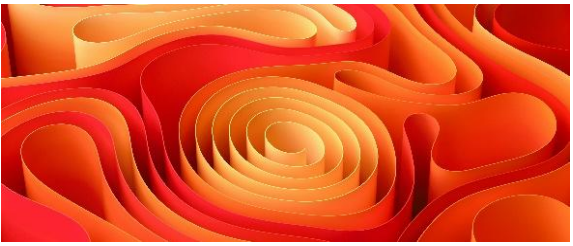
Pills

Regulatory/Supervisory Pills | N.164 November 2026

Author: Dario Esposito



TOPICS:

Stress Test

SOURCE:

European Central Bank

ECB: Stress Testing in a Changing Risk Environment

- The ECB advocates a broader, more agile **stress-testing framework** to address increasingly interconnected financial risks, including geopolitical tensions, cyber threats, climate change and artificial intelligence (AI). Stress tests cannot predict future crises but remain essential for **identifying vulnerabilities, assessing resilience and strengthening supervisory decision-making**.
- The ECB distinguishes three complementary approaches. 1) **Supervisory stress tests**: Support the Supervisory Review and Evaluation Process (SREP) and Pillar 2 guidance through comparable capital assessments; 2) **Internal bank stress tests**: Evaluate institution-specific vulnerabilities and inform capital planning, liquidity management, risk appetite and contingency strategies; 3) **Macroprudential stress tests**: Assess systemic vulnerabilities, interconnected exposures and feedback loops arising from simultaneous institutional responses.
- The ECB emphasises that **methodological complexity should not compromise interpretability or practical usefulness**.
- The ECB identifies **three priorities**: simplifying resource-intensive stress-testing requirements, introducing faster and more flexible analytical exercises and strengthening system-wide assessments covering banks and non-bank financial institutions. The European Systemic Risk Board (ESRB) aims to develop a desktop-based system-wide stress test by 2028, incorporating cross-sectoral contagion, liquidity pressures and behavioural feedback loops. The ECB also highlights AI-related investment exposures as an emerging systemic vulnerability, particularly through leverage, concentrated financing, refinancing risks and interconnected valuations.
- The ECB intends **to preserve EU-wide stress testing as a core supervisory instrument while complementing it with proportionate, exploratory and system-wide exercises**. Banks should strengthen scenario design, data capabilities, management-action credibility and integration of stress-testing outcomes into strategic decisions.