The EBA 2023 stress tests: outcome and analysis

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• Welcoming remarks by Michel COJEAN, AEFR General Delegate

One of the responsibilities of the EBA is to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the EU. To this end, the EBA is mandated to monitor and assess market developments as well as to identify trends, potential risks and vulnerabilities stemming from the micro-prudential level.

The EU-wide stress test exercise is one of the primary supervisory tools to conduct such an analysis. The EBA Regulation gives the Authority powers to initiate and coordinate the EU-wide stress tests, in cooperation with the European Systemic Risk Board (ESRB). The aim of such tests is to assess the resilience of financial institutions to adverse market developments, as well as to contribute to the overall assessment of systemic risk in the EU financial system. The EBA's EU-wide stress tests are conducted in a bottom-up fashion, using consistent methodologies, scenarios and key assumptions developed in cooperation with the ESRB, the European Central Bank and the European Commission. They are, along with the Supervisory Review and Evaluation Process (SREP) through which competent authorities form a comprehensive view on the risk profile of the institutions, one of the main tools for banking supervision.

The 2023 adverse scenario was based on a narrative of hypothetical heightened geopolitical tensions, with high inflation and higher interest rates having strong adverse effects on private consumption and investments, both domestically and globally. In terms of GDP decline, the 2023 adverse scenario is the most severe used in the EU wide stress up to now: it reflects a deliberate choice and the purpose of the stress test exercise, which is to assess the resilience of the European banking system to a hypothetical severely deteriorated macro-environment.

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The 2023 EU-wide stress test assessed the resilience of 70 banks from 16 EU and EEA countries, covering 75% of the EU banking sector assets. The test subjected them to a severe scenario involving a 6% 3-year cumulative decline of the EU GDP, higher interest rates, and increased credit spreads. Despite this harsh scenario, European banks demonstrated resilience.

At the outset, EU banks had a robust capital position, with an average fully-loaded CET1 ratio of 15%. This enabled them to withstand the adverse scenario, resulting in a capital depletion of 459 basis points, leaving a fully loaded CET1 ratio of 10.4%. Higher earnings and improved asset quality at the beginning of 2023 helped mitigate the impact.

Even after incurring combined losses of EUR 496 billion, EU banks maintained sufficient capitalization to continue supporting the economy in times of severe stress. This underscores the importance of vigilance in light of the high level of current macroeconomic uncertainty.

Key improvements in this year's stress test included an expanded sample size with 20 more banks compared to previous tests, encompassing a wider representation of the EU banking sector. Additionally, the assessment included a top-down model for projecting net fees and commission income, a detailed analysis of banks' sectoral exposures, and a specific focus on credit risk towards firms by economic sector.

Under the adverse scenario, EU banks finished the exercise with an average CET1 capital ratio above 10%, indicating their ability to support the economy in times of severe stress. While the CET1 capital ratio declined from 15% in 2022 to 10.4% in 2025 under this scenario, it increased by 136 bp to 16.3% under the baseline, reflecting better initial asset quality and higher earnings.

The adverse scenario's severity was marked by a 6% decline in EU GDP, higher interest rates, and elevated credit spreads, leading to significant credit losses. However, higher earnings offset some of these losses, contributing to a positive impact on the capital ratio. Notably, Net Interest Income was the largest contributor to this positive effect.

Large corporates and SMEs bore over half of the total credit losses, with energy-intensive companies experiencing notably higher loss rates in the manufacturing sector. Companies in accommodation and food services, as well as construction, were the most affected by the scenario.

Net interest income was positively influenced by higher interest rates, with loan repricing contributing positively under the adverse scenario. Market risk losses and operational risk losses also impacted capital positions.

In terms of transparency and disclosure, the EBA provided detailed information on the starting and ending points of the exercise under both baseline and adverse scenarios for all 70 banks. 10 transparency templates were made public, covering various aspects of the banks' performance.

- ## Conclusion

In conclusion, the 2023 EU-wide stress test demonstrated the resilience of European banks under a severe adverse scenario. The results were rather comforting: EU banks remain resilient despite combined losses of close to €500 bn, largely due to solid capital position at the start of the exercise; the banking sector remain sufficiently capitalised to continue to support the economy with a CET1 ratio still above 10 %; and only 3 banks fall below the total SREP capital requirement

The banks' solid capital positions and improved asset quality since the Global Financial Crisis played a crucial role in this resilience. However, the high level of macroeconomic uncertainty emphasizes the need for continued vigilance in the banking sector.