EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Press release

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ECB publishes results of 2026 geopolitical risk reverse stress test

- Banks demonstrate ability to design geopolitical stress scenarios tailored to their risk profiles
- Exercise highlights some weaknesses in banks' stress-testing frameworks
- 110 euro area banks under direct ECB supervision participated

The European Central Bank (ECB) today published the results of its 2026 thematic reverse stress test on geopolitical risks, covering 110 euro area banks directly supervised by the ECB.

The exercise forms part of the ECB's broader supervisory work on geopolitical risk, which is a supervisory priority for 2026-28. The aim is to strengthen banks' forward-looking risk management and stress-testing capabilities in an environment of heightened geopolitical uncertainty.

The exercise required banks to conduct a reverse stress test, asking them to identify plausible geopolitical scenarios that would be severe enough to materially affect their capital positions. Banks were generally able to produce economically meaningful stress scenarios reflecting their individual vulnerabilities. However, the exercise also highlighted areas where further improvements are needed. These include the granularity and sensitivity of risk assessments, the consistency between scenario narratives and their translation into solvency and liquidity impacts, the realism of mitigating actions, particularly under systemic crisis situations caused by heightened geopolitical conditions, as well as the articulation of solvency-liquidity interactions in stress-testing frameworks.

The 2026 exercise applied a reverse stress-testing methodology. Banks were given a target of 300 basis points depletion of their Common Equity Tier 1 (CET1) ratio and were asked to design scenarios with a geopolitical risk narrative that would result in such an outcome. This approach fundamentally differs from traditional stress tests, like the biennial EU-wide stress test led by the European Banking Authority, where all banks face the same scenario. In a traditional stress test, the focus is on

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measuring the quantitative impact on capital. In a reverse stress test, by contrast, the emphasis is on banks' ability to analyse more broadly how geopolitical risks could affect their business models.

In line with the ECB's efforts to streamline supervisory processes, the stress test simulation replaced an annual stress test that banks would otherwise have had to submit as part of their internal capital adequacy assessment process (ICAAP), thus helping to reduce compliance costs.

Scenarios and geopolitical risk narratives

Banks developed a wide range of geopolitical narratives, including military conflicts, trade, energy and supply chain disruptions, economic sanctions, macroeconomic shocks and cyber incidents. This diversity highlights banks' ability to tailor their stress testing to their specific business models and risk profiles.

As geopolitical risk is a cross-cutting risk driver that can directly or indirectly affect both financial and non-financial risks, banks had to distinguish between three transmission channels: the financial market channel, the real economy channel and the safety and security channel.

Most banks presented the real economy channel as the main transmission channel of risks, followed by financial market impact. In scenarios depicting military conflicts and cyberattacks, the safety and security channel − which includes physical risks as well as cyber and hybrid threats − was an important risk transmitter.

Common transmission channels into capital

Across banks' scenarios, credit risk and profitability pressures were common channels through which geopolitical stress translated into capital impacts. Impairment losses on loans were frequently highlighted as an important transmission channel, particularly in sectors vulnerable to geopolitical developments such as manufacturing, energy and transport. And for banks with large trading books, declines in fees and trading income also contribute to capital erosion.

Liquidity and funding

Banks' liquidity positions generally remained above regulatory minimum requirements under the stress scenarios. Many banks modelled a reasonable transmission of geopolitical events into their liquidity and funding positions. However, several banks produced only a muted response to their liquidity metrics despite the significant capital decline given in the scenario. Because solvency stress and liquidity stress are often closely intertwined during a crisis, the ECB will follow up with the banks concerned with a view to them improving their stress-testing frameworks.

Non-financial risks

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The ECB asked banks to explain the non-financial risks that could materialise under the chosen scenario. Cyber incidents and the disruption of services from third-party providers emerged as the most prominent threats. In general, the ECB calls on banks to include operational resilience and cyber risk considerations into stress-testing frameworks alongside traditional financial risks.

Mitigating actions

A distinctive feature of the reverse stress test was the need to set out the management actions each bank would apply in the geopolitical risk scenario. These included raising capital, selling business lines, reducing costs and adjusting payout ratios. Overall, the actions envisaged were generally plausible and relevant for the specific scenario. However, the ECB identified cases where assumptions appeared overly optimistic, such as assuming that loan portfolios can be sold or capital can be raised at ambitious prices under adverse market conditions. Supervisors will follow up with the banks concerned during the ongoing dialogue on capital and recovery planning. The ECB also stresses the key role banks' boards play to ensure scenario analysis and contingency planning are properly accounted for.

Supervisory follow-up

The results will feed into the ongoing supervisory dialogue with banks and may inform qualitative assessments in the Supervisory Review and Evaluation Process (SREP). The exercise will not lead to adjustments in Pillar 2 guidance or the leverage ratio Pillar 2 guidance.

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