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## **PRESS RELEASE**

### **ECB WELCOMES THE PUBLICATION OF THE EU-WIDE STRESS-TESTING EXERCISE**

The European Central Bank (ECB) welcomes the publication of the results of the EU-wide stress-testing exercise, which was prepared and conducted by the Committee of European Banking Supervisors (CEBS) and national supervisory authorities, in close cooperation with the ECB. The stress-testing exercise is comprehensive and rigorous. It confirms the resilience of EU and euro area banking systems to major economic and financial shocks. The exercise, therefore, represents an important step forward in supporting the stability of the EU and euro area banking sectors.

The ECB welcomes the disclosure made by individual banks on their respective capital position and losses under an adverse scenario, as well as on their total exposures to each EU/EEA central and local governments, which significantly enhances the transparency of the EU and euro area banking sectors. This information allows, for each of the 91 banks tested, the public assessment of its capital position, taking into account the different business models of the banks.

Any individual bank that – in the context of the results of the exercise – may require additional capital should take the necessary steps to reinforce its capital position through private sector means and by resorting, if necessary, to facilities set up by Member States, in full compliance with EU state-aid rules. In this respect, the ECB welcomes the commitment made by national authorities with regard to back-stop facilities to recapitalise the institutions that may have fallen below the minimum threshold of 6% at Tier I level defined for the capital ratio.

It is important to underline that the stress test has been undertaken after, in some cases, large-scale programmes injected public capital into several national banking systems and following a substantial increase in the capital ratios achieved by EU banks since last year as a result of retained earnings and new issuances.

The ECB contributed by providing macroeconomic scenarios and reference parameters for the exercise.

The stress-test is based on a low probability adverse scenario that includes:

- a significant deterioration in macroeconomic conditions, which implied that real GDP growth for the EU would be lower than in currently available forecasts, on average by some 3 percentage points cumulated over 2010 and 2011, implying, for instance, a highly unlikely recession both in 2010 and 2011 ;
- a common upward shift in the yield curve for the EU as a whole, reaching 125 basis points for the three-month market interest rates and 75 basis points for the ten-year market interest rates at the end of 2011; and
- a country-specific upward shock to long-term government bond yields that resulted in an overall average increase of 70 basis points at the end of 2011.

Overall, the scenario is substantially adverse in macroeconomic and financial terms. The effect of the above-mentioned interest rate shocks results, for instance, in yields of 3.5% and 4.7% for a five-year and a ten-year German government bond respectively at the end of 2011 and of 13.9% and 14.7% for a five-year and a ten-year Greek government bond respectively. Both sets of figures are significantly above present market rates.

This increase in market interest rates was translated into haircuts to be applied to the sovereign debt held by banks in the trading book and, in particular, into large increases in the probabilities of default of corporate and household debt to be applied to the banking book. For example, in the adverse scenario the probability of default of corporate debt for the euro area is taken to be 61.3% higher in 2011 than the actual default rate in 2009.

The parameters used in the exercise to assess the resilience of individual banks to a financial shock represented severe assumptions, which were designed specifically for the purposes of the exercise and not in terms of the likelihood of their materialisation.

The scenarios and parameters were used by each national supervisor, in contact with the selected banks, to produce the outcomes that have now been made public under the responsibility of national authorities.

More information and details on the methodology and assumptions prepared by the ECB and used to underpin the exercise can be obtained from the report available at the CEBS' website: [www.c-eps.org](http://www.c-eps.org) and can be accessed separately on the ECB's website: [www.ecb.europa.eu](http://www.ecb.europa.eu).

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