

Technical note

Key lessons from the ECB's 2026 reverse stress test on geopolitical risk

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Issuing agencies

European Central Bank (ECB)

Primary applicability

Banks' geopolitical risk management, stress testing and capital planning frameworks



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The ECB’s 2026 reverse stress test assesses banks’ preparedness for severe geopolitical shocks, identifying key areas to strengthen risk identification, scenario planning and the credibility of mitigating actions

Context	Objective	Scope
• Geopolitical risk has become increasingly relevant for banks, materialising through traditional credit, market, liquidity, funding and operational risk channels. • Against this backdrop, the ECB conducted the 2026 SSM thematic stress test on geopolitical risk in the context of the ICAAP, requiring banks to develop their own severe geopolitical scenarios. • Unlike traditional stress tests, the exercise started from a predefined capital depletion of at least 300 basis points and asked banks to identify plausible geopolitical scenarios capable of generating such an impact.	• The publication aims to present the main lessons from the ECB’s 2026 reverse stress test on geopolitical risk, identifying areas where banks can strengthen their preparedness for severe geopolitical shocks.	• The exercise covered 110 banks directly supervised by the ECB, which developed institution-specific geopolitical scenarios leading to a predefined depletion of CET1 capital. • Banks considered a broad range of geopolitical shocks, including military escalation, trade fragmentation, sanctions, cyberattacks, hybrid threats, political instability and market repricing. • The assessment considered how these shocks could propagate across capital, liquidity, funding and operational resilience, as well as the feasibility of mitigating measures under system-wide stress.
Main Content		
Key lessons from the geopolitical risk reverse stress test	• The exercise highlights the need for reliable and granular information systems, board-led assessment of resilience under different scenarios and realistic management actions, while reinforcing sound capital planning and an integrated view of capital, liquidity and operational risks.	

2. Key lessons from the geopolitical risk reverse stress test

The ECB's reverse stress test highlights the need for reliable information systems, effective board oversight and realistic management actions to strengthen banks' resilience to geopolitical shocks

Preparedness starts with reliable information systems	• Geopolitical shocks affect banks through traditional risk channels, including credit, market, liquidity, funding and operational risks. • Banks need granular and reliable data to identify which borrowers, products, sectors and regions are most exposed to geopolitical shocks. • Effective risk information requires consistent definitions, quality controls and integrated reporting, avoiding data silos across different risk functions. • The exercise identified room for improvement, as some banks need to assess in greater detail how geopolitical risks affect them, reinforcing the importance of risk data aggregation and reporting capabilities.
Boards need to assess resilience under different scenarios	• Scenario planning should be treated as a governance task, with boards assessing whether adverse scenarios capture the bank's key vulnerabilities and whether the institution could remain resilient without external support. • Banks need scenarios that are severe, relevant and capable of explaining the transmission of geopolitical stress to capital, liquidity and operations. • The exercise showed that some banks did not fully identify second-round effects or interactions between risk channels, particularly between funding, collateral, liquidity and capital. • Several banks may be underestimating funding and foreign-currency liquidity pressures, despite assuming material capital depletion under stress.
If many are looking for the same exit, the exit might be blocked	• Banks should make realistic assumptions about the availability and effectiveness of mitigating measures under system-wide stress. • Measures such as asset sales, repricing, funding optimisation or capital issuance may become less effective when many institutions attempt to use them simultaneously. • System-wide stress may amplify constraints through higher capital-raising costs, fire-sale dynamics and reduced access to funding and market liquidity. • Banks should not assume a fiscal policy response to the shock. Monetary policy assumptions may be reflected in scenario calibration, but should be applied consistently across earnings, market valuations, funding costs and liquidity.
Overall conclusions	• Geopolitical uncertainty will remain a feature of the risk environment and a supervisory priority for European banking supervisors. • The 2026 reverse stress test highlights three key requirements: granular information, board-led scenario assessment and realistic management actions. • Sound capital planning remains essential to understand how capital pressures can be amplified by liquidity and operational risks and which management measures would remain feasible under stress. • Reverse stress testing is an important supervisory tool to assess whether banks have appropriate frameworks in place to support sound capital planning and resilience.

A. Why Management Solutions?

MS has distinctive experience, a specialized team and a differentiated value proposition to support stress testing exercises, based on its long track record assisting institutions in previous exercises

01

Proven experience in conducting EBA stress tests

Regular participation in the various stress tests carried out in the sector since 2012 (covering credit, market, operational and CCR risks, capital, NFCI and NII).

02

Extensive experience in geopolitical risk management

Experience working with European and American financial institutions on geopolitical risk management, including the definition of global frameworks and risk quantification methodologies, supported by a robust methodology and benchmarking capabilities.

03

Leading advisor to the ECB

Selected by the European Central Bank as the highest-ranked consultancy for the delivery of On-Site Inspections (OSIs) and Internal Model Investigations (IMIs) for seven consecutive years.

Ranked #1 across 11 ECB framework lots supporting OSIs and IMIs, covering a broad range of risk and supervisory areas, including stress testing, credit risk, market risk, operational risk, IT risk, internal models, Asset Quality Reviews (AQRs), PMO services and IT tools.

04

Expertise across all key risk and capital models

Extensive experience working on the management and modelling of: i) credit risk (IRB parameters, stress models, IFRS9, management models ...), ii) market risk, iii) PPNR models, and iv) capital projection models.

05

A multidisciplinary team with deep stress testing expertise

More than 300 experts in capital and stress testing, with quantitative, functional and technical profiles and strong regulatory knowledge.

B. Abbreviations

Abbreviation	Meaning
AQR	Asset Quality Review
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
EBA	European Banking Authority
ECB	European Central Bank
ESG	Environmental, Social and Governance
EU	European Union
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IMI	Internal Model Investigation
IRB	Internal Ratings-Based
NFCI	Net Fee and Commission Income
NII	Net Interest Income
OSI	On-Site Inspection
PMO	Project Management Office
PPNR	Pre-Provision Net Revenue
SSM	Single Supervisory Mechanism



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**Multiscope
Team**



**Best practice
know-how**



**Proven
Experience**



**Maximum
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Antonio Pardo De Santayana
Partner at Management Solutions
antonio.pardo.de.santayana.montes@managementsolutions.com

Marta Hierro
Partner at Management Solutions
marta.hierro@msspain.com

For more information, please visit

www.managementsolutions.com

Or follow us at: [!\[\]\(df47d6bec273bbb8b349135fff3a20f7_img.jpg\)](#) [!\[\]\(282d8c4100e9191083aa63eb2daf4df3_img.jpg\)](#) [!\[\]\(d76aedc427bc23d0d171fb009d98a622_img.jpg\)](#) [!\[\]\(2a476145cf4a94e9302ea47541c276dc_img.jpg\)](#) [!\[\]\(e6659aff0a5e7ff8dc820808a2c1ecaf_img.jpg\)](#)