A&M's 2023 EU Wide Stress Test - Scenarios are Out

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Alvarez & Marsal (A&M) is delighted to publish the analysis of 2023 EU Wide Stress Test scenarios, launched on 31 January 2023.

This document aims to help banks analyze the main features of the scenario narrative, benchmark results across countries and support stress test results analysis.

As a summary, highly severe macro scenarios combined high inflation will foresee a possible increase in capital depletion as compared to 2021 Stress Test results.

Key takeaways include:

1. **Much worse GDP and unemployment rate shocks**, with a 3-year net shock of 6% and 6.1% respectively. GDP shock compared to ST'21 is greater that 200 bps in all countries except for Portugal, Ireland, Netherland and Greece. Unemployment rate shows divergences across EU countries, with highest impact compared to ST'21 in Ireland.

2. **Residential real estate prices** are worse than in ST'21 (21% vs. 16%) and **Commercial Real Estate** slightly better (29% vs. 31% shock). Netherlands is by far the country most affected by RRE shocks (1391 bps difference compared to ST'21).

3. **High discrepancies in GVA by sectors** and countries, with overall higher 3-year impact in Mining, Manufacturing, Utilities and Transportation.

4. **Drastically high interest rates** (375bps of 10-year rate vs. 42 bps of ST'21) will have a negative impact in Capital through OCI Revaluation and NII pressure through methodology constrains and deposit passthrough effects.

5. **Short- and long-term rates** presents a very material increase in 2023, and slightly decreases in 2024-25. **Sovereign spread shocks** increase drastically in southern countries (+82bps vs. ST'21) and remains flat in the rest. No FX impact either in baseline or adverse for UK, US or Japan.

6. **UK and US**: Much worse GDP, unemployment rate and Residential Real Estate (RRE) shocks vs St'21. For UK, shocks reaches 8.3%, 6.8% and 22% respectively, whereas for US the shocks hit 4.6%, 3% and 22% for the same macro variables. The scenario is more severe than the 2022 scenarios of the Bank of England and the Federal Reserve System.

7. **Highest impact expected in 2024** due to accumulation of negative effects.

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