

Background Analysis 1.2.

2026 IMF Global Banking Stress Test

Overview

- **The global banking system remains broadly resilient under the IMF's Global Stress Test (GST).** Under an adverse scenario featuring energy supply disruptions, severe recession, higher inflation, higher interest rates, and lower asset prices, the aggregate Common Equity Tier 1 (CET1) ratio declines by about 150 basis points, reaching a trough of 11.5 percent within the three-year stress test horizon.
- **Despite overall resilience, banks representing 22 percent of global banking assets are classified as “weak”,** as their CET1 ratios fall below 7 percent under the adverse scenario. The share of weak banks has increased relative to the 2025 GST, largely reflecting the regional impacts from the scenario's energy supply chain disruptions and the sharp increase in long-term government bond yields.
- **Sensitivity analysis suggests that losses from exposures to nonbank financial institutions (NBFIs) would be manageable at the system level but could be material for some institutions.** In the United States, loans to NBFIs increased by 18 percent in 2026, far outpacing growth in total assets and regulatory capital. Exposures to private equity and private credit firms grew even faster, by 30 percent. Under a range of stress scenarios, aggregate bank capital declines only modestly, but a subset of banks with concentrated NBFi exposures experiences significant capital depletion. In the European Union and the United Kingdom, banks' exposure to private assets appears to be lower, and the impact of hypothetical stress is milder.

Introduction

This analysis assesses the resilience of the global banking system to a severe stagflationary shock. The IMF's 2026 Global Banking Stress Test evaluates banks' ability to withstand an adverse scenario featuring persistent inflation, recession, and a prolonged higher-for-longer interest rate environment, with disruptions to commodity supply chains stemming from geopolitical tensions and trade restrictions. This scenario also incorporates a downward reassessment of expected productivity gains from artificial intelligence (AI). In addition, the analysis examines banks' potential losses under stress in nonbank financial institutions (NBFIs).

Monitoring the resilience of the global banking system and identifying pockets of vulnerability are critical for assessing financial stability risks. Recent episodes, including the banking stress experienced in Europe and the United States in 2023, showed how weaknesses concentrated in a relatively small group of institutions can undermine confidence, trigger broader market instability, and require rapid policy intervention to preserve financial stability.

Data and Methodology

The IMF's Global Stress Test (GST) is a forward-looking framework designed to identify vulnerable banking systems under a range of macrofinancial scenarios over a three-year horizon. The 2026 exercise projects banks' earnings and capital positions under baseline and adverse scenarios, using publicly available bank-level data as of end-2025. The framework captures the effects of credit losses, valuation changes on securities held for trading, interest rate repricing, noninterest income and expenses, and changes in risk-weighted assets.

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Further details on the methodology can be found in [Chapter 2](#) and the [Online Annex](#) of the [October 2023 Global Financial Stability Report](#).

The adverse scenario is generated using the IMF's Global Macrofinancial Model (Vitek 2018), which quantifies shocks relative to the baseline outlook. The model incorporates trade and financial spillovers across 29 economies. A severe recession is driven primarily by adverse supply-side shocks, including weaker labor productivity, higher price markups, rising energy prices, and higher term premiums on government debt. These shocks increase inflation, weaken growth, and trigger an endogenous monetary policy response through higher policy rates consistent with a Taylor-rule framework.

The 2026 GST covers 665 banks across 29 countries, representing approximately \$160 trillion in assets at the end of 2025. The sample excludes foreign subsidiaries and captures over 70 percent of global banking system assets. A bank is classified as weak if its Common Equity Tier 1 (CET1) ratio falls below 7 percent under the adverse stress scenario, consisting of the Basel minimum requirement of 4.5 percent plus the 2.5 percent capital conservation buffer, and any surcharge applicable to global systemically important banks (G-SIBs).

Stress Scenario

The adverse scenario assumes that geopolitical tensions, trade fragmentation, and energy supply disruptions coincide with a sharp reassessment of AI-related valuations, triggering a severe stagflationary shock. Global real GDP growth falls by about 3 percentage points relative to the baseline over the first two years of the scenario and recovers only partially thereafter, remaining 2 percentage points below its end-2025 level by 2028. Global unemployment rises by 3.5 percentage points, while inflation increases by more than 4 percentage points (not shown), by 2027. Financial conditions tighten sharply: short- and long-term interest rates rise by more than 150 and 300 basis points, respectively, corporate bond spreads widen by almost 200 basis points (Figure 1.2.1). At the same time, equity prices decline by more than 25 percent and oil and commodity prices increase by more than 50 percent over the three-year horizon. The baseline scenario aligns with the *World Economic Outlook*.

Higher energy prices and persistent inflation generate pronounced macrofinancial stress across economies. The adverse scenario describes an extreme tail scenario in which imported fuel is disrupted in availability, rather than merely becoming more expensive. The scenario assumes that oil and gas inventories have been depleted as war in the Middle East spreads, constraining fuel and other supply chains. Commodity prices increase by 32 percent in 2026 and a further 26 percent by 2028, pushing inflation expectations higher and raising the risk of wage-price spirals in advanced economies and capital outflows from emerging markets. Central banks respond by tightening monetary policy, while long-term government bond yields rise even more sharply as term and sovereign risk premiums increase. Although the scenario is applied consistently across countries, its macroeconomic specification varies with structural characteristics. In particular, oil- and gas-importing economies are hit the most, reflecting their greater exposure to higher energy prices and supply disruptions.

At the same time, a reassessment of expected productivity gains from artificial intelligence triggers a sharp correction in technology valuations, generating broad spillovers across global financial markets. The retrenchment of investment from US equity markets generates sizable negative wealth effects and fiscal pressures, including through sovereign wealth funds. Widespread fund redemptions amplify market stress, prompting large-scale asset sales across both advanced and emerging economies. Disruptions in repo and interest rate markets force hedge funds to unwind leveraged sovereign cash-futures basis trades, increasing liquidity premiums in government bond markets. Together, these dynamics tighten financial conditions sharply, raising borrowing costs across sectors and economies and keeping them elevated throughout the first two years of the scenario.

Results

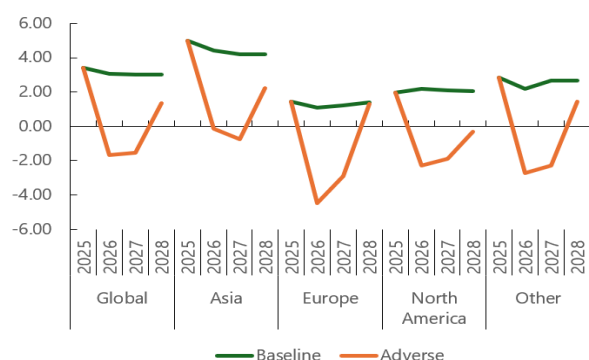
The global banking system remains broadly resilient under the adverse scenario. The aggregate CET1 ratio falls by about 150 basis points from its starting level, reaching a trough of 11.5 percent in 2026 before recovering modestly to 11.9 percent by the end of the three-year horizon (Figure 1.2.2, panel 1). Capital depletion is driven

primarily by loan losses and rising expenses, partly offset by higher net interest income from a steeper yield curve (Figure 1.2.2, panel 2). The decline is more than twice as large as the 70-basis-point reduction recorded in the 2025 GST, reflecting the greater severity of the adverse scenario for some regions. That said, aggregate capital ratios are comfortably above regulatory minimums.

Figure 1.2.1. 2026 Global Stress Test Stagflation Scenario

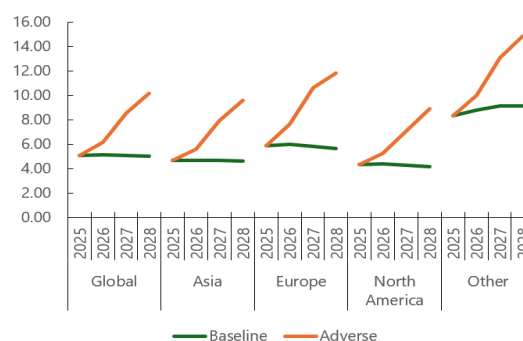
1. Real GDP Growth

(Percent)



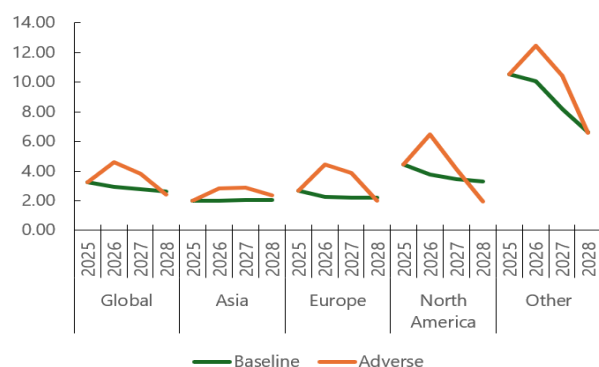
2. Unemployment Rate

(Percent)



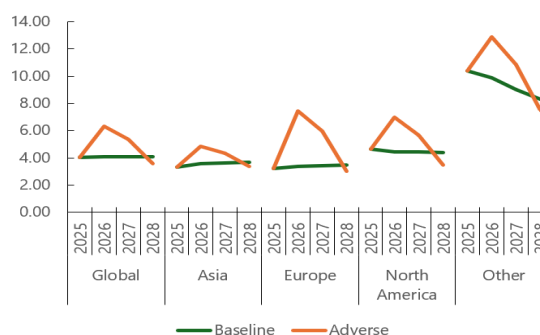
3. Short-Term Interest Rate

(Percent)



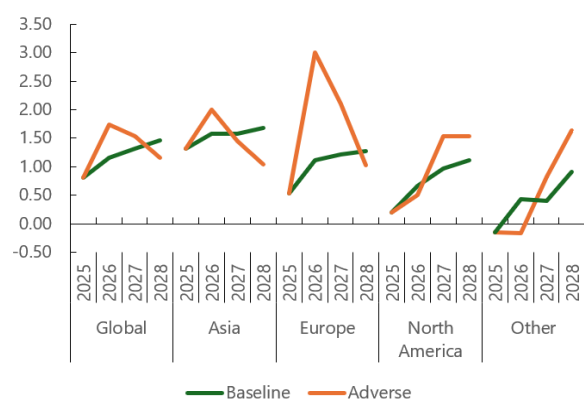
4. Long-Term Interest Rate

(Percent)



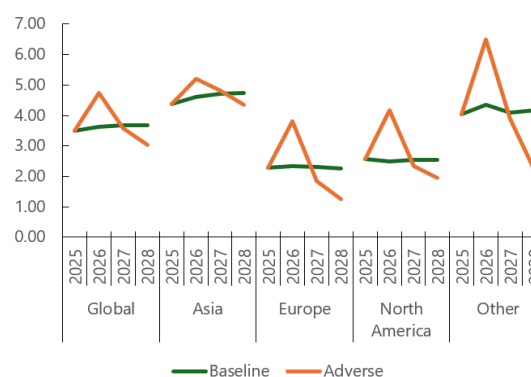
5. Term Spread

(Percentage point)



6. Corporate Bond Spread

(Percentage point)



Sources: Bloomberg Finance L.P.; Fitch Analytics; S&P Capital IQ; April 2026 *World Economic Outlook*; and IMF staff calculations.

Stress test outcomes vary considerably across regions. Banks in Asia, experience the largest capital depletion, reflecting elevated loan losses—9 percentage points of capital—associated with higher unemployment and the region’s reliance on imported oil and gas. Higher initial capital buffers than in other regions partly absorb the loan losses (Figure 1.2.2). European banks record the second-largest capital decline. By contrast, banking systems in North America and the “Other” country group remain broadly resilient, supported by robust net interest and fee income generation. In North America, for instance, the aggregate CET1 ratio falls by about 160 basis points in the first year of stress before strong net interest income leads to a complete recovery (Figure 1.2.2, panels 1 and 6). Usual caveats with any empirical work apply in this case as well; possible nonlinearities with very high interest rates and government bond yields could not be sufficiently reflected in these results, given limited episodes in recent history.

Figure 1.2.2. IMF Global Banking Stress Test Results

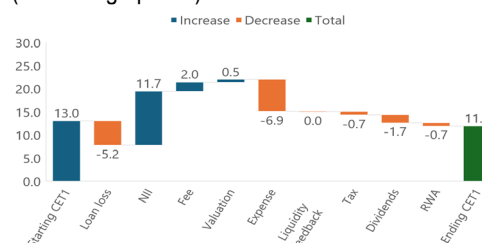
Global banks are broadly resilient to the adverse Global Stress Test scenario.

1. CET1 Ratio by Region, 2025–28
(Percent)

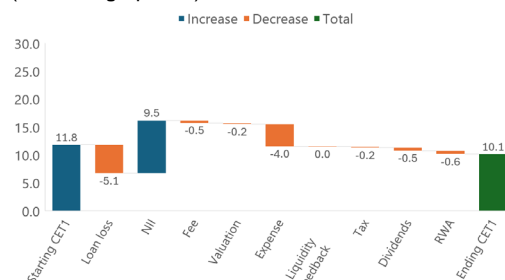


Credit losses and expenses drive capital depletion in the adverse scenario.

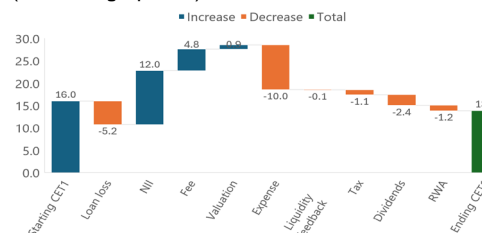
2. Global Contribution to CET1 Ratio Change 2025–28
(Percentage points)



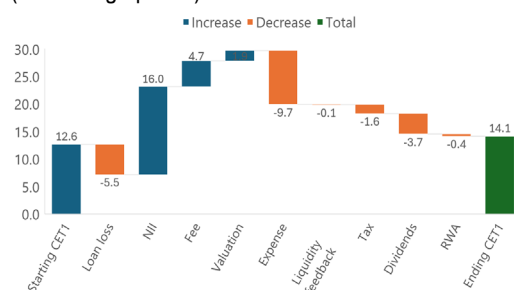
3. Contribution of Asia to CET1 Ratio Change, 2025–28
(Percentage points)



4. Contribution of Europe to CET1 Ratio Change, 2025–28
(Percentage points)



5. Contribution of North America to CET1 Ratio Change, 2025–28
(Percentage points)



Sources: Fitch Connect; Fitch Solutions; and IMF staff calculations.

Note: In panels 2 to 6, “loan loss” refers to loan loss provisions and “valuation” to valuation losses. “Expense” refers to operating costs, assumed to be constant over time and across scenarios as a share of risk-weighted assets. Liquidity feedback is based on the extra funding cost of pledging securities at stressed prices and the extra cost of assessing central bank facilities. CET1 = Common Equity Tier 1; NII = net interest income; RWA = risk-weighted asset.

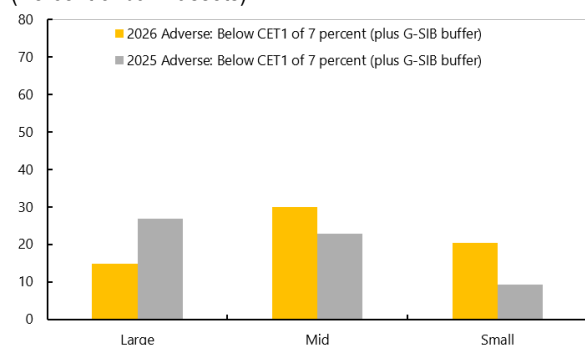
Despite overall resilience, vulnerabilities remain concentrated in a material subset of banks. Under the adverse scenario, 110 banks, representing 22 percent of global banking assets in the sample, are classified as weak, with CET1 ratios falling below 7 percent plus any applicable G-SIB buffer (Figure 1.2.3). This share of weak banks has increased by about 3 percentage points since the 2025 GST, largely reflecting the impact of the more severe geopolitical shock amid unchanged initial capital levels (please see the October 2025 *Global Financial Stability Report*). Weak banks are concentrated among smaller institutions and a limited number of large banks. In North America, the rise in weak banks is driven by market risk, as a sharp increase in term premiums and long-term government bond yields triggers asset valuation losses, particularly in a small number of large banks. In some jurisdictions, capital ratios fall below the minimum CET1 requirement of 4.5 percent. These distressed banks account for about 7 percent of global banking assets and would require an estimated \$68 billion in capital to restore compliance with minimum CET1 requirements.

Figure 1.2.3. Global Banking Stress Test Results

The share of weak banks has increased relative to the 2025 Global Stress Test, largely driven by the scenario's oil and gas disruptions.

1. Share of Total Assets in Weak Banks, by Bank Size

(Percent of bank assets)

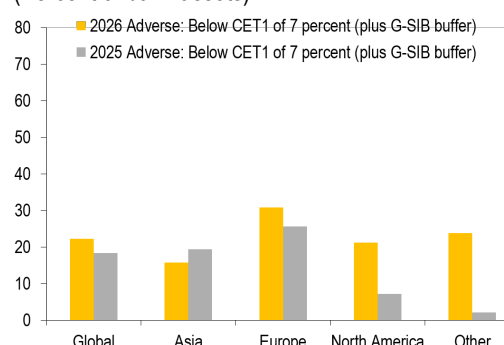


Sources: Fitch Connect; Fitch Solutions; and IMF staff calculations.

Note: Large, midsize, and small banks are defined as having total assets above \$3 trillion, between \$1 trillion and \$3 trillion, and below \$1 trillion, respectively. CET1 = Common Equity Tier 1 capital; G-SIB = global systemically important bank.

2. Share of Total Assets in Weak Banks, by Geography

(Percent of bank assets)



Sources: Fitch Connect; Fitch Solutions; and IMF staff calculations.

Note: "Other" includes countries in Africa, Latin America, the Middle East, and Oceania. CET1 = Common Equity Tier 1 capital; G-SIB = global systemically important bank.

NBFI Stress Sensitivity Analysis

Banks' exposures to NBFIs have continued to grow rapidly, deepening links between banks and the nonbank financial sector. In the United States, loans to NBFIs increased by 18 percent between the second quarter of 2025 and the first quarter of 2026, reaching \$1.44 trillion and far outpacing growth in total assets (5 percent). As a result, loans and commitments to NBFIs have reached 18 percent of total loans and almost 65 percent of CET1 capital (Figure 1.2.4, panel 1). Growth has been particularly strong in loans and commitments to private equity firms and business and credit intermediaries, which include business development companies and other private credit providers, with exposure reaching 33 percent of CET1 capital (Figure 1.2.4, panel 2). Unused credit commitments have also expanded rapidly. As a result, banks' total potential exposure, including both drawn and undrawn facilities, has increased to 134 percent of Tier 1 capital, up from 119 percent a year earlier. In the European Union and the United Kingdom, major banks' exposures to private equity and private credit funds reached about \$150 billion by the first quarter of 2026.¹ These exposures amounted to around 18 percent of CET1 capital, well below comparable levels in the United States.

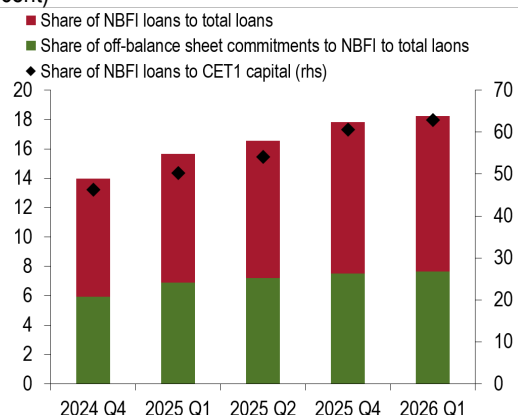
¹ The estimate is based on public disclosure data from 13 major EU and UK banks (S&P Global 2026).

Figure 1.2.4. Results of Sensitivity Test for Banks' Exposure to NBFIs and Credit Losses

US bank loans to NBFIs continued to increase in the past year...

1. Banks' Exposures to NBFIs

(Percent)



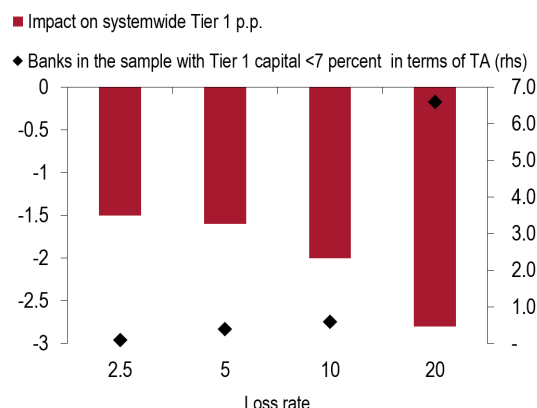
Sources: Consolidated Reports of Condition and Income; S&P Capital IQ Pro; and IMF staff calculations.

Note: CET1 = Common Equity Tier 1; NBFIs = nonbank financial institution.

Systemwide effects of higher credit loss rates in US NBFIs are significant only under the most severe assumptions.

3. Impact of NBFIs Credit Losses on Banks' Total NBFIs Exposure

(Percent of bank assets; percentage points)



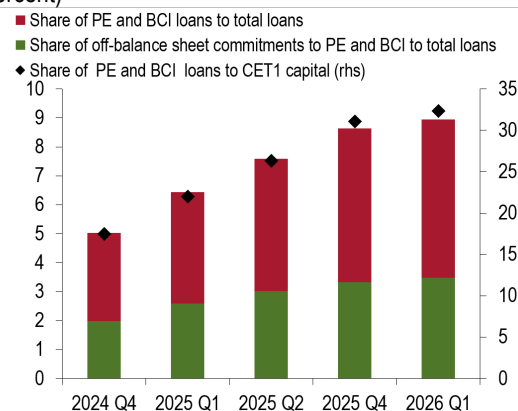
Sources: Consolidated Reports of Condition and Income; S&P Capital IQ Pro; and IMF staff calculations.

Note: The figure is based on 2026 first-quarter data for 131 banks in the United States. The shock assumes that the risk weights for nonbank financial institution (NBFIs) exposures increase from 20 percent to 100 percent and that NBFIs draw all unused commitments available. In addition, banks experience hypothetical losses from NBFIs loans, as displayed on horizontal axis. NBFIs = nonbank financial institution; TA = total assets.

...with exposures to private assets as the main driver of growth.

2. Banks' Exposures to Private Assets

(Percent)



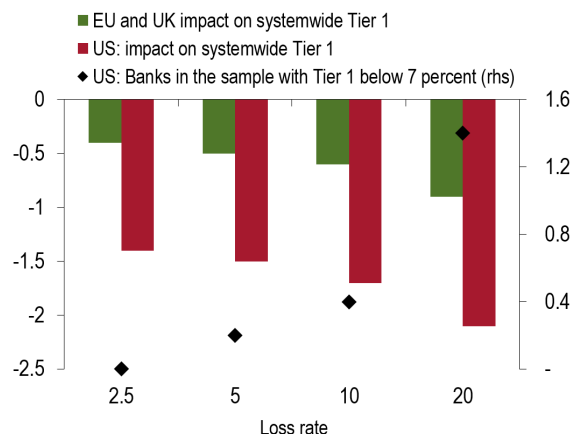
Sources: Consolidated Reports of Condition and Income; S&P Capital IQ Pro; and IMF staff calculations.

Note: BCI = business credit intermediary; CET1 = Common Equity Tier 1; PE = private equity.

Banks appear well positioned to withstand losses from stand-alone private assets stress events.

4. Impact of Credit Loss Sensitivity Analysis, Total Private Assets Exposure

(Percentage points; percent of total assets)



Sources: Consolidated Reports of Condition and Income; S&P Capital IQ Pro; and IMF staff calculations.

Note: The figure is based on 2026 first-quarter data for 131 banks in the United States and considers exposures to private equity and business credit intermediaries. For the European Union and the United Kingdom, the figure is based on 13 major banks and considers exposures to private equity and private credit as the banks report. For the United States, the shock assumes that the risk weights for NBFIs exposures increase from 20 percent to 100 percent and that NBFIs draw all unused commitments available. For the European Union and the United Kingdom, the shock assumes that the risk weights for NBFIs exposures increase from 60 percent to 100 percent and that firms draw all unused commitments available (40 percent additional exposure). In addition, banks experience hypothetical losses from loans, as displayed on the horizontal axis. NBFIs = nonbank financial institution.

Sensitivity analysis suggests that losses from NBFIs exposures would be manageable at the system level but could be material for some institutions. The analysis assumes credit loss rates² ranging from 2.5 to 20.0 percent, full drawdown of committed credit facilities, and a multiple-notch downgrade of NBFIs that increases regulatory risk weights.³ In the United States, aggregate capital ratios decline only modestly across most scenarios—topping out at around –3 percentage points when loss rates reach 20 percent—with relatively few banks breaching the 7 percent Tier 1 threshold (Figure 1.2.4, panel 3). However, several of these banks are regional banks that would experience sizeable capital declines because of their high exposure concentrations, while some larger banks, including G-SIBs, are also materially affected mostly because of their business model. Similar results emerge when the analysis is narrowed to private asset exposures (Figure 1.2.4, panel 4). Only under an extreme scenario, in which private asset exposures are assumed to be fully written off, does the aggregate Tier 1 ratio decline materially, by about 5 percentage points, causing nearly 30 banks to fall below the 7 percent benchmark. In the European Union and the United Kingdom, no bank falls below the 7 percent CET1 threshold. However, the smaller estimated impact relative to US banks may partly reflect data limitations and the more limited sample of institutions.

NBFI-related losses could become systemic if they coincide with a broader macrofinancial shock. Although banks appear well positioned to absorb losses from stand-alone NBFI stress events, vulnerabilities could be amplified when such losses occur alongside a severe economic downturn, such as the adverse GST scenario. This is because many banks with large NBFI exposures are also among those experiencing the largest capital depletion under the macro stress test. The combination of macroeconomic stress and NBFI-related losses could therefore further weaken a meaningful subset of institutions and amplify stress transmission across the financial system.

Liquidity vulnerabilities linked to NBFIs appear concentrated in a relatively small group of banks. Under a severe drawdown scenario, a limited number of institutions could face contingent liquidity demands that exceed their available liquidity buffers.⁴ Together, these banks account for less than 8 percent of banking sector assets. Most are smaller US institutions with large credit and liquidity commitments to NBFIs relative to their size. They also tend to rely more heavily on noncore funding and have lower starting capital ratios, making them more exposed to funding stress during periods of market turmoil (see the October 2025 *Global Financial Stability Report*).

Conclusion and Policy Recommendations

The global banking system remains broadly resilient under the IMF's adverse stress scenario, but a material share of banks would have low capital levels. Banks in economies exposed to energy import shocks are particularly vulnerable. At the same time, rapid growth in bank lending and liquidity commitments to NBFIs has strengthened linkages between banks and the nonbank financial sector. Although stand-alone losses on NBFI exposures appear manageable at the system level, they could become more consequential when combined with a severe macrofinancial downturn, amplifying stress among banks that are already vulnerable. Against this backdrop, policymakers should consider the following recommendations:

- **Complete the implementation of Basel III and other internationally agreed-upon standards** to ensure that banks remain resilient in an environment of elevated uncertainty. Reviewing regulations to

² Because of data limitations, historical loss rates depend on the source, as noted by the Bank of Japan (Takemura, Yuko, and Makoto 2026). For reference, historic data from private market analysis show that losses from private credit were 6.5 percent during the global financial crisis in 2008 (see Nesbitt 2026). Other companies, such as Proskauer, report 10 percent loss rate in 2020, while Lincoln reports 9 percent in the same period.

³ The analysis also assumes a multiple-notch downgrade of NBFIs, which increases risk weights from 20 to 100 percent in the United States and from 60 to 100 percent in the European Union and the United Kingdom.

⁴ Acharya, Cetorelli, and Tuckman (2026) and Cetorelli and Parthasarath (2026) find that credit and liquidity facility utilization by business credit intermediary and private equity firms are high during downturns and may not create additional deposit inflows. Paper also noted that “bank-provided contingent funding manifests itself most often by drawing down bank credit lines in unusually high volumes,” which justifies an extreme assumption of a 100 percent utilization rate.

reduce unnecessary complexity may improve efficiency, but reforms should not weaken resilience, create opportunities for regulatory arbitrage, or undermine international consistency.

- **Enhance crisis preparedness** to reduce the risk that bank failures trigger confidence shocks or fuel severe systemic disruption. In line with the Financial Stability Board's Key Attributes of Effective Resolution Regimes (2024), crisis management frameworks should recognize that systemic disruptions can arise from institutions beyond the largest banks and thus ensure that recovery and resolution plans are prepared for all institutions that could be systemically significant, or critical if they fail.
- **Ensure timely asset classification and adequate provisioning**, particularly in jurisdictions where banks' loan portfolios are highly exposed to energy price shocks, so that expected credit losses are recognized and absorbed promptly.
- **Strengthen monitoring of banks' exposures to NBFIs**, assess how stress at lightly regulated institutions could affect bank solvency and liquidity under adverse scenarios, and close data gaps that hinder a comprehensive assessment of financial sector interconnections.

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