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Economic and social challenges for the Spanish banking sector*

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* English translation from the original in Spanish

1 Introduction

Good morning and thank you for inviting me to participate in this parliamentary session on the Spanish banking sector's economic and social challenges.

I believe that, in the forum that represents the will of the people, it is important to engage in deep, mature and honest debates about such a vital industry.

The banking sector has undergone significant changes since the great financial crisis. The landscape today is completely different from that in 2008, both internationally and within Spain. That crisis triggered a radical shift in the financial scene, which in the case of Spain triggered an unprecedented concentration of banks. A series of transformative reforms were also launched:

First, from a regulatory standpoint, many aspects were changed to better capture the risks to which institutions were exposed. Basel III focused primarily on four areas: avoiding excessive sector leverage, strengthening regulatory capital levels and quality, addressing risks arising from excessive maturity transformation and including macroprudential elements alongside the microprudential approach.

Beyond the Basel reforms, other key elements have been introduced into Spain's regulatory framework over the last years, such as anti-money laundering and countering the financing of terrorism, the protection of customer deposits, the promotion of financial inclusion, transparency in its broadest sense and the strengthening of governance.

Second, the supervisory approach was also completely overhauled, leading to the creation of the single supervisory mechanism (SSM) in 2014, which delivered successful results. Today, the main European banks are subject to homogeneous and effective supervision by the European Central Bank. With total supervised assets of almost €27 trillion from 109 banks, the SSM is the largest supervisory framework in the world.

Lastly, banks' risk management culture also underwent a profound transformation. The dramatic consequences of that crisis for Spain, both economically and socially, highlighted the need to strengthen governance and risk management mechanisms. Today, Spanish banks have more advanced and prudent systems for managing these risks.

These three pillars – regulation, supervision and risk management culture – have cemented a strong banking system despite recent shocks. While it is true that the extraordinary economic and fiscal measures deployed by the public sector has been key to overcoming recent difficulties, the Spanish banking system is robust, efficient and competitive.

In this speech, I will explore the challenges facing the banking sector and propose solutions.

2 Economic challenges

2.1 Uncertainty

The banking sector is a reflection of the real economy. It is the main instrument, especially in Europe, through which the savings generated by an economy are channelled to the agents that need them, either to invest or to cover people's consumption needs. The current setting is marked by widespread concern over heightened global uncertainty in the political, economic and trade spheres. There is currently a fragile balance between two scenarios: one of greater trade cooperation and another of gradual fragmentation, more regionally focused and possibly more costly, marked by bilateral agreements, most likely without US involvement. This second scenario is the most plausible at the moment. Given this setting, many firms are reviewing their value chain structures and refinancing needs.

Banks face this new environment from a solid position, with historically low non-performing loan (NPL) ratios (3.21%),[1] a profitability that far exceeds the average of the large euro area economies[2] and a solvency that has been strengthening in recent years.

All the projections indicate that the Spanish economy would a priori be less directly exposed to the United States' possible new tariff framework and exchange rate policy. However, the ongoing uncertainty surrounding the US Administration's new policy, and its indirect effects through the slowdown of other economies with which there are stronger trade ties, means we must stay vigilant. In addition to the trade channel, the impact of the current situation on the Spanish economy through the financial and the uncertainty channel should also be analysed.

The banking sector must monitor economic developments and borrower behaviour to be able to take appropriate measures. I am referring not only to credit risk, but also to potential liquidity tensions that could arise due to instability in financial markets, as a result of unforeseeable decisions or unexpected events.

2.2 Regulation and supervision

As I have pointed out, the implementation of new regulations, such as Basel III, has strengthened the banking system, as they have introduced higher capital and liquidity requirements. This has been a long process that has entailed lengthy multilateral negotiations. The strengthening of the regulatory and institutional framework has bolstered the banking sector, helping it to overcome various episodes of tension and uncertainty in recent years.

The supervisory framework has also been strengthened in the euro area with common procedures guided by standards set by a single authority. This milestone, which required

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[1] Including specialised lending institutions: https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a0403e.pdf

[2] 14.2% for significant institutions compared with an SSM average of 9.45%. https://www.bankingsupervision.europa.eu/framework/statistics/html/index.en.html

significant adaptability from all involved, both national authorities and supervised institutions, has resulted in an efficient, fully operational system.

However, in both regulation and supervision, the spotlight has recently fallen on regulatory complexity. We must remember that European regulation is complex because it seeks to enforce the rules while always upholding the values at the heart of the European project, including the protection of citizens and respect for their rights. This complexity is even greater in a sector such as the financial sector, due to its economic and financial stability implications and connections.

The impact of the great financial crisis and its high economic and social cost resulted in the current regulatory system which has, in turn, proven to be effective. However, I think it is time to reflect on the framework in its entirety. It is necessary to take a holistic view of all the regulations and their implications and to review whether there are any rules that overlap or clash with each other.

This review should cover the different levels of regulation, as well as the microprudential, macroprudential and resolution frameworks, to ensure that these levels do not add undue complexity.

The various competent authorities in their respective areas may have introduced regulations without a higher-level entity capable of verifying that there are no inefficiencies.

I want to make it clear that the goal we are aiming for is simplification, not deregulation. This should not result in a general revision of the regulation, especially level 1 texts (directives and regulations), but in holistically considering level 2 and level 3 regulations to analyse whether there are duplications or potential for simplification.

All authorities are currently working in this direction. However, the complexity of certain level 2 and level 3 regulations is due to the impossibility of reaching political agreements at level 1, which delegates regulatory responsibility to the lower levels and leads to the fragmentation of rules at the national level.

In the area of supervision we are also reviewing processes and areas in which more agile and efficient procedures and methodologies can be applied that reduce the resources needed for effective supervision.

Financial stability requires a clear, stable and predictable regulatory and supervisory framework. In addition, it should include an element of proportionality, based on the systemic importance and risk profile of the banks, provided that it does not undermine adequate risk management by institutions nor make supervisory work more complex.

It is still too early to draw any conclusions and I do not wish to generate unrealistic expectations, but it is clear that simplification has become a focal point, drawing the attention of authorities and stakeholders alike.

2.3 Competition and new technologies

The new environment we live in also includes new players and technologies that make financial services easier. Customers now have new ways of accessing these services and new agents that can provide financial services are emerging. Competition has always been a driving force for progress and growth, and it is therefore important that it not be hindered.

Technology is another tool that fosters competition, as it facilitates communication with customers and is able to create products more adapted to needs. In short, it enhances the user experience, which is one of the elements that customers take into account when choosing one bank over another.

New technologies can grow the business and make operations more efficient, driving up profitability, but require large investments. It is a strategic issue, which must be carefully analysed by banks' decision-making bodies to determine their approach to digitalisation. In this regard, the Spanish sector is quite advanced, since digital channels are more widely used than in other European countries.

As I have pointed out on other occasions, technology also poses risks, as it increases the number of interconnections and platforms exposed to system failures or even cyber attacks. That is why the implementation of DORA (Digital Operational Resilience Act) is a basic pillar of a technological and secure banking system. Dora is a regulation that seeks to ensure that financial institutions are resilient to digital threats.

It establishes a clear framework for technological risk management and security, requiring banks to adopt measures to protect their systems and data. This framework includes regular stress tests and collaboration with technology service providers to guarantee the security of the digital supply chain. The adoption of DORA entails considerable investment in infrastructure and reskilling, which could be a challenge for smaller, less capitalised banks.

But the implementation of DORA can also be seen as an opportunity to strengthen consumer confidence and improve the competitiveness of banks that are able to adapt efficiently.

Moreover, as technology advances rapidly and new threats continue to appear, banks must remain ever vigilant and adaptable, characteristics which can be difficult to sustain in the long term.

Another technological element on which both the banking sector and the Banco de España are working is artificial intelligence. Artificial intelligence can be a catalyst that improves processes and reduces costs, as long as it is properly understood and managed. For this, the transparency of its results needs to be understood and improved. The use of artificial intelligence entails potential benefits both for the financial sector and, through it, for other sectors, including more efficient risk management, optimised pricing strategies, better capital and liquidity planning and an enhanced ability to detect and address cyber threats. In turn, banking can benefit from the use of artificial intelligence in its relationship with customers by tailoring and improving customer experience or supporting the rollout of AI services, thus reducing costs for small and medium-sized enterprises (SMEs). But artificial intelligence also poses risks. For example, it can cause herd behaviour due to algorithmic convergence, artificially worsening crises. Other examples are the lack of transparency or explainability of the models and consumer data protection breaches.

Integrating new technologies, such as AI and the blockchain, can also pose challenges in terms of interoperability, compliance and workforce training.

Ultimately, how these challenges are handled will be key to sustainability and the future success of banking institutions.

As a supervisory authority, the Banco de España can and should encourage and help banks to take advantage of their strong fundamentals to develop and invest in new technologies, while maintaining their commitment to financial inclusion. It should also help to dispel some of the regulatory uncertainty so that banks can roll out new technologies with every assurance. Lastly, it must also ensure that AI is developed in an ethical way, avoiding biases that could lead to discrimination, inequality and unfair outcomes, while still mitigating existing risks.

Digital euro

Another significant technological consideration is the advancement of payment systems, particularly the development of the digital euro. This is one of the elements that will help to enhance our economy's competitiveness. At present, Europe relies on foreign networks for card payments. 72% of transactions are conducted through these networks, posing a strategic weakness and resulting in fees being paid outside our borders. Other foreign players, such as mobile digital wallet providers, are also entering this sector. At the same time, we are closely monitoring another challenge in this field: the expansion of dollar-denominated stablecoins, supported and promoted by the new United States Administration. This could lead to an even greater dependence on foreign big tech.
In an increasingly digital world, the public needs a digital version of cash that, like banknotes, allows secure payments to be made any time and anywhere across the euro area. Efficient European digital payment methods do exist right now, but none are available across the entire euro area. Take Bizum – it is efficient, but not available in France or Germany. And while there are digital payment methods available across the region, these are not European, they are not under our control (Visa and Mastercard, for example).

The digital euro is becoming increasingly important in this context. Although the final decision rests with European legislators, the ECB continues to work diligently to make this project a reality. The aim is not to replace cash, but rather to seize the opportunity to establish an alternative digital payment system that strengthens our strategic autonomy. We must emphasise the business opportunity of retaining the revenue from point-of-sale payments within Europe – revenue that is currently lost beyond our borders. Furthermore, the digital euro will enable us to define a stable framework to face future threats, such as the potential rise of dollar-backed stablecoins, and enhance our capacity to monitor financial stability.

3 Social and environmental challenges

3.1 Green transition

At the same time, banks are facing a series of challenges in financing the green transition. Although the banking sector is not itself a highly polluting sector, its role in channelling funds makes it a key player in the transformation required to adapt to the new climate scenario. Banks must support the productive sector on the path of economic adaptation and transformation. There is no doubt that the economic cost of inaction or delayed action far exceeds that of designing orderly transition policies – a fact confirmed by all expert-developed models. Therefore, although adaptation costs may seem high initially, they are far lower than those of than that of a disorderly or abrupt transition.

This process must be guided by a clear and stable regulatory framework. In this regard, Europe has a multitude of regulations relating to taxonomy, corporate sustainability reporting requirements (e.g. the Corporate Sustainability Reporting Directive), due diligence in sustainability, green bond regulations, non-financial banking information reporting and more.

While their fundamental principles are not in question, efforts are being made to simplify some requirements relating to reporting – especially for smaller firms – and better align others. I believe this is the path we should follow, without falling into the temptation of labelling sustainability as an obstacle to competitiveness or a hindrance to development.

Indeed, if we, as prudential supervisors, are to ensure that banks can properly manage their risks, we must have access to precise data and information on their customer's risks. The financial risks arising from the current climate and environmental crises are no exception to this principle. Therefore, it is of vital importance that any attempt to simplify sustainability reporting for companies does not lead to critical metrics and data points for managing climate and nature-related risks no longer being disclosed in a harmonised manner.

Furthermore, if banks wish to green their credit portfolio and demonstrate their commitment to achieving a decarbonised economy, they must develop transition plans based on the road maps put forward by their customers. This process will not be simple, as many firms will need assistance along the way. The regulations indicate that banks will also be responsible for interacting with their counterparties within the framework of their strategies.[3] Moreover, it is essential that these transition plans contain intermediate, quantifiable milestones to enable monitoring and address financial risks arising from environmental and social factors. Significant progress has been made, but the road ahead is challenging. Understanding it is a hugely complicated task that demands greater standardisation and transparency. Therefore, it will remain necessary to develop a common framework and more comprehensive and reliable collection of data on banks' carbon commitments.

Banks’ ability to address these challenges will be crucial for their future sustainability and success in an increasingly environmentally oriented environment.

[3] Paragraph 109(e) of the Guidelines on the management of ESG risks. EBA/GL/2025/01.

3.2 Access to banking services

Financial inclusion is another issue that we must keep in the spotlight. Although most people can and do access core banking services, there are still some groups that face barriers. Branch closures and the ongoing digitalisation of financial services exposes some population groups to a greater risk of financial exclusion. The public continues to make widespread use of in-person channels to access banking services, in spite of the growth of online banking.

In this regard, there is a marked divide in the use of online banking within the Spanish population, with very low usage rates among the elderly, the less educated and those on lower incomes. The digital gap between age groups may narrow relatively swiftly in the future, but the gaps across income and educational levels may prove more persistent.

This also poses an added difficulty for people living in small municipalities. According to the latest report from the Banco de España on this topic,[4] in 2023, there were 2,879 municipalities with fewer than 500 inhabitants (home to approximately 424,000 people) and 190 municipalities with more than 500 inhabitants (home to around 166,000 people) that had no in-person access point to banking services. These two figures combined represent just over 1% of the population.

The banking sector is mindful of this issue and continues to work alongside public authorities to reduce the number of people without in-person access to banking services. Specifically, I think that the alternative channels that have been deployed should still be publicised with information campaigns and customers should be helped to use them.

3.3 Financial literacy

The public's poor financial literacy is another significant challenge. Many consumers do not fully understand the products and services offered by banks, which can lead to sub-optimal financial decisions and increase economic vulnerability.

It is, then, necessary for banks, whether individually or through their associations, to continue their efforts under the Financial Education Plan to share basic financial awareness.

Additionally, banks must have social and ethical responsibility at the very core of their activity. Ethical behaviour and social responsibility are fundamental to maintaining consumer trust. As a result, the Banco de España is redoubling its supervision of conduct, applying a new approach through which it shapes banks' conduct. The aim is for the banking sector to be imbued with a culture oriented towards meeting customer needs while also protecting their financial integrity. Furthermore, the Banco de España will also bolster its resources to increase the number of activities aimed at supporting financial literacy.

[4] https://www.bde.es/wbe/en/publicaciones/analisis-economico-investigacion/documentos-ocasionales/la-accesibilidad-presencial-a-los-servicios-bancarios-en-espana-informe-de-seguimiento-2024.html

Conclusion

The uncertain environment we face poses a challenge for all sectors, including banking. Operating under these conditions requires special vigilance and a prompt and diligent response to any impact that may be felt unexpectedly. Additionally, the adoption and management of new technologies, including artificial intelligence and the digital euro, present both opportunities and challenges for banks. The implementation of DORA and other cyber security measures are essential to protect systems and data in a constantly evolving digital environment.

The Banco de España plays a crucial role in fostering these technologies, ensuring they are developed ethically and sustainably while maintaining a commitment to financial inclusion. Banks' ability to adapt to these changes will be key to their long-term success and sustainability. Collaboration between banks and the transparent application of these technologies will strengthen consumer trust and enhance competitiveness in the European financial arena.

Furthermore, I have highlighted the fundamental role that banks play in financing the green transition and building a more sustainable economy. To fulfil this mission, a clear and stable regulatory framework will be needed to facilitate the collection of accurate data and the disclosure of critical information. At the same time, banks must work closely with their customers to develop transition plans with measurable milestones that allow for effective monitoring. Only through cooperation and greater transparency can we address the challenges arising from the climate crisis and ensure our economy's long-term sustainability. Adapting to this new paradigm is more than mere necessity: it is also an opportunity to boost competitiveness and economic development in a world that is increasingly aware of the importance of looking after our environment.

Banks must make the most of the good times now to undertake the necessary investments that will drive their strategy in terms of technology, sustainability and a more robust business model without forgoing their social commitment.