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**02.03.2026**

**Sustainability, competitiveness and geopolitics: new dimensions  
shaping the prudential framework\***

FINRESP Annual Meeting

Madrid

Soledad Núñez Ramos

Deputy Governor

\* English translation from the original in Spanish.

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Good morning,

I am honoured to open this Annual Meeting at such a decisive time for Europe. We are living through a period marked by persistent geopolitical tensions, an important debate on Europe's competitiveness and strategic autonomy, and an urgent need to accelerate an energy transition that safeguards long-term financial stability, growth and competitiveness.

From a central bank perspective, these challenges cannot be addressed in isolation. They must be considered together, given their direct impact on the resilience of the financial system, the economy's capacity to absorb shocks and, ultimately, the well-being of households and businesses. In other words, sustainability cannot be treated as a separate or side issue: it has become a structural dimension of macroeconomic and financial stability.

Climate change, as we know, is not only an environmental concern, but an increasingly economic and financial one, as the growing body of evidence from recent decades clearly shows. According to the Copernicus Climate Change Service, following the record-high temperatures of 2024, 2025 was the third warmest year ever recorded globally.<sup>1</sup> Between 1980 and 2024, the European Union suffered economic losses of more than €822 billion from extreme climate and weather events, according to the European Environment Agency, with more than a quarter of this total recorded in the last four years.<sup>2</sup> The trend is clear: average annual climate-related losses have soared from around €8 billion in the 1980s to approximately €45 billion in 2020-2024. These are not hypothetical or distant scenarios, but effects that have already been observed and measured.

In Spain, which is particularly exposed to water stress, heat waves and certain coastal risks, the physical effects of climate change have direct consequences for strategic sectors such as agriculture, tourism and some critical infrastructure. When economic activity is affected, so are firms' balance sheets, debt-servicing capacity and, ultimately, the quality of financial assets.

For years, the financial debate was largely framed around transition risks, linked to regulatory, technological and preference-driven changes that could affect the value of specific assets. We now have a clearer understanding that physical risks are just as important from a prudential standpoint. Over 90% of banks supervised under the Single Supervisory Mechanism acknowledge material exposure to climate and environmental risks. The fact that banks themselves acknowledge this is significant: it confirms that these risks are real and are perceived as relevant to their business models.

The channels through which these risks are transmitted have been clearly identified: declining collateral values in areas affected by extreme events, higher levels of non-performance in vulnerable sectors, supply-chain disruptions and greater pressure on the insurance sector.

In parallel, European discussions underscore the need to strengthen competitiveness and strategic autonomy in an increasingly fragmented and volatile geopolitical environment. We

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<sup>1</sup> ["2025 was the third-warmest year on record, Copernicus data show" | ECMWF](#)

<sup>2</sup> [Economic losses and fatalities from weather- and climate-related extremes | Publications | European Environment Agency \(EEA\)](#)

must not see sustainability as a barrier to competitiveness. Even if transition policies involve costs in the short to medium term, sustainability can drive competitiveness over the medium to long term. An early and orderly transition, guided by clear signals, reduces uncertainty and allows capital to be reallocated efficiently. By contrast, delaying the transition increases the likelihood of sudden adjustments and value losses in a disorderly scenario, as highlighted by the Network for Greening the Financial System (NGFS) in a recent study.

The energy transition is not just a climate priority, but an essential component of European and national security strategies. By sharply reducing our reliance on imported fossil fuels, we can directly limit the exposure of Spanish households and businesses to supply shocks and price volatility driven by geopolitical tensions in third countries. It is therefore vital for strengthening our technological capacity and for securing economic autonomy in Europe, which requires the mobilisation of substantial amounts of capital.

Here, the financial system's role is to channel savings towards productive investment, while managing risks prudently. To do so, it needs a clear regulatory framework, consistent methodologies and, above all, reliable, forward-looking and granular information. It is essential that we draw on Europe's scientific advances, including state-of-the-art instruments such as Copernicus, the European Union's Earth observation programme, which provide us with climate and environmental data of unprecedented accuracy. Integrating climate and satellite-based data has become crucial for institutions and supervisors seeking to rigorously assess geographical exposure to physical risks and the potential decline in collateral values.<sup>3</sup> Yet, beyond any technological tool, a robust financial system remains the key to a successful transition.

This is where prudential tools play a vital role. Climate scenario analysis is gaining prominence as a means of assessing the resilience of institutions and the financial system as a whole under different transition paths and the possible materialisation of physical risks.

That said, for these tools to be fully effective, we must avoid fragmentation and ensure that all supervisors and institutions share a common approach. In this context, the **European Banking Authority's** recent guidelines are an important step towards greater methodological harmonisation and the effective integration of these risks into banking practices.<sup>4</sup>

However, it is worth highlighting some key elements underlying these guidelines.

First, scenarios are not forecasts but analytical tools that help identify vulnerabilities. In this regard, the EBA guidelines are based on scenario analysis for two distinct purposes: assessing an institution's financial resilience to severe short-term shocks and the adequacy of its capital and liquidity, and evaluating the medium and long-term resilience of its business model to help it navigate an uncertain future.

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<sup>3</sup> ["Fire and ice: how satellite data helps illustrate Europe's changing landscape" | Press release | European Environment Agency \(EEA\)](#)

<sup>4</sup> [Guidelines on environmental scenario analysis.pdf](#)

Second, these guidelines emphasise the importance of integrating climate risks in a way that goes beyond mere formal compliance, ensuring they are considered in institutions' strategic and capital planning.

And third, their implementation must adhere to the principle of proportionality, taking into account each institution's size, complexity and risk profile.

Ultimately, the goal is not to create unnecessary regulatory burden but to improve the financial system's ability to anticipate challenges.

The Banco de España will decide within the established timeframe whether to adopt these guidelines and will formally notify the European Banking Authority. If adopted, they will provide a reference framework for regularly designing environmental, social and governance stress tests.

Nevertheless, the analysis of physical risks still poses significant methodological challenges. Current efforts focus on improving data availability, understanding transmission channels and progressively integrating these risks into prudential analysis. This is particularly important given that the impact of disasters – including some recent extreme events such as fires and floods – is a potential source of risk for economic growth and financial stability, especially at the local level.<sup>5</sup>

Beyond the prudential approach, the Banco de España has been working across three complementary dimensions.

First, **supervisory integration**, assessing within the Single Supervisory Mechanism framework how institutions incorporate climate risks into their governance, risk appetite and capital planning, following a gradual approach based on clear expectations and the progressive improvement of data and methodologies.

Second, **analysis**, aimed at identifying sectoral and geographical concentrations of risk and enriching the supervisory dialogue. In recent years the Banco de España has developed an empirical work stream focused on the effects of climate change, reinforcing our concern about these issues.

Several studies show that the adverse effects of climate change generate sectoral and territorial dependencies with clear economic and financial implications. For example, the CATALYST models<sup>6</sup> make it possible to analyse how climate shocks spread unevenly across sectors and regions, amplifying existing vulnerabilities.

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<sup>5</sup><https://www.bde.es/ff/webbe/SES/Secciones/Publicaciones/PublicacionesSeriadadas/DocumentosTrabajo/24/Files/dt2406e.pdf>  
<https://www.bde.es/wbe/en/noticias-eventos/blog/que-impacto-economico-tienen-el-cambio-climatico-y-la-degradacion-medioambiental--el-caso-de-la-vivienda-en-el-mar-menor.html>  
[https://www.bde.es/ff/webbe/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/25/1\\_FSR48\\_DANA.pdf](https://www.bde.es/ff/webbe/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/25/1_FSR48_DANA.pdf)

<sup>6</sup><https://www.bde.es/wbe/en/publicaciones/analisis-economico-investigacion/documentos-trabajo/catalist-a-new-bigger-better-model-for-evaluating-climate-change-transition-risks-at-banco-de-espana.html>

Other research highlights more specific transmission channels: the impact of fires on credit supply and institutions' reassessment of risk, the effects of environmental degradation and water-related risks on asset value (particularly housing), or how desertification and drought reduce productive capacity (especially in agriculture) and, consequently, the solvency of business and households.

Recent extreme episodes, such as the flash floods in Valencia, also show that these risks can have significant implications from a financial stability standpoint. Taken together, this evidence confirms that climate risks are already affecting economic activity, credit quality and the resilience of the financial system.

And third, our **contribution to the public and technical debate**. FINRESP is a good example of public-private cooperation that promotes the exchange of good practices and the collective improvement of analytical capabilities.

Our role is not to steer the sectoral allocation of credit, but to guarantee that risks – including those arising from climate change – are properly identified, measured and managed.

To achieve this, international cooperation is essential. The **NGFS**, despite the withdrawal of the United States, brings together more than 140 central banks and supervisors from around the world. Since its creation in 2017 it has developed benchmark climate scenarios that now constitute a widely used methodological foundation. These scenarios make it possible to consistently assess the macroeconomic and financial effects under various transition paths and different levels of global warming. Moreover, the NGFS has expanded its analysis to include nature and biodiversity-related risks, recognising that the degradation of natural capital can have systemic implications. Joint work reduces methodological fragmentation, improves international comparability and strengthens the credibility of the analysis.

Allow me to conclude with a few **final thoughts**. Financial stability is not about avoiding all risk, but about ensuring that the system can absorb shocks without compromising its essential function of financing the real economy. Climate change introduces long-term risks whose exact scale is uncertain, but whose economic materiality is becoming increasingly evident. The cumulative losses recorded in Europe in recent decades remind us that this is not a remote possibility, but an actual trend.

Managing these risks with technical rigour, proportionality and international cooperation is essential for preserving European competitiveness, strengthening our strategic autonomy and safeguarding financial stability. The Banco de España will continue to contribute to this objective with independence, through evidence-based analysis and close collaboration with the European Central Bank and the NGFS. Because integrating sustainability in risk management is not a matter of reputation: it is an exercise in prudence.

Thank you.