

## EXTERNAL INFORMATION ON FINANCIAL STABILITY RISKS AND VULNERABILITIES

The Banco de España has undertaken a process to compile external information, to better identify the main financial stability risks and vulnerabilities that could affect the Spanish economy.

As part of this initiative, between February and March 2025 the Banco de España engaged with a number of geopolitical and banking sector experts. In some cases, a survey was circulated before the meeting with questions on financial stability risks and vulnerabilities, which served as a guideline for structuring the discussion.

This box provides a summary of the views of the different groups. It should not under any circumstance be interpreted as the Banco de España's analysis of the risks and vulnerabilities examined in this report, although it does make a valuable contribution in this respect.

During the meetings with the experts, they provided their perception of the main risks that could impact financial stability (Chart 1). The chief risk they cited was geopolitical risk, with trade tensions (protectionism) and the situation of the European Union (EU) being their primary concerns in this respect. The participants underscored the importance of properly identifying the various facets of geopolitical risks and how they

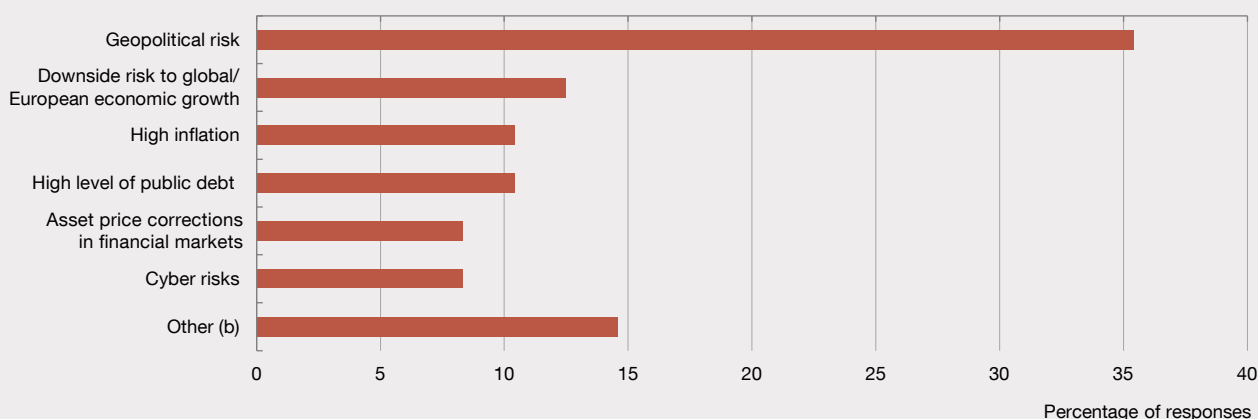
materialise in inherently financial risks (such as credit, market and operational risk).

The second risk identified was the downside risk to global and European economic growth, against a backdrop of heightened uncertainty. In third place was the risk associated with high and persistent inflation, stemming from both economic policies and energy price fluctuations. The other significant sources of risk identified included the high levels of public debt in Spain, other large European economies and the United States, and the risk associated with the high valuations of some financial assets, which could be exposed to abrupt corrections in the event of a downward revision to the market outlook.

Lastly, the experts named cyber risk as a significant risk factor, citing specifically attacks on common infrastructures, which could propagate the disruption of activity to multiple entities and operators across the world.

The geopolitical researchers, meanwhile, underlined that, in the current setting, geopolitical interests prevail over their immediate economic consequences. These participants also discussed the obstacles facing the EU in increasing its strategic autonomy and capacity to influence on the global stage, and emphasised the need to reduce

Chart 1  
Main risks to financial stability (a)



**SOURCE:** Banco de España survey of chief risk officers and market analysts, sent in February and March 2025.

- a** Responses to the question: "What do you consider are the three main risks which, if they materialise, could have an adverse effect on the financial stability of the Spanish economy in the next two years?".
- b** "Other" includes political fragmentation, the real estate sector, climate change, demographics, the increase in taxes on banks, the deterioration in the Spanish banking sector's liquidity position and the leverage of non-bank financial institutions.

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any political or economic fragmentation, including for the purpose of strengthening the defence industry.<sup>1</sup>

They pointed out that the conflicts in the Middle East and Ukraine are, by themselves, still hotspots of instability, capable of giving rise to macro-financial shocks in the short and medium term.<sup>2</sup> Turning to Latin America, the

region faces a period of heightened uncertainty marked by turmoil in international trade, and the participants cited the high level of foreign currency debt among some economies as a major source of financial vulnerability.<sup>3</sup> Lastly, they highlighted the Sahel region's capacity to affect the Spanish economy in terms of trade, energy and migration.

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- 1 For a more in-depth analysis of this issue, see Félix Arteaga, Daniel Fiott and Luis Simón. (2025). "All in? The revival of the Spanish and European defence industry", Realinstitutoelcano.org.
  - 2 See Mira Milosevich-Juaristi. (2025). "Guerra y paz en Ucrania: entre Múnich, Doha y Yalta", Realinstitutoelcano.org, for an analysis of the potential consequences of the peace negotiations undertaken in relation to the war in Ukraine.
  - 3 See Judith Arnal, José Juan Ruiz and Ernesto Talvi. (2023). "Narrative vs data: the SVB crisis and the resilience of Latin American banks", Realinstitutoelcano.org, for an analysis of how financial turmoil in the United States can ultimately spread to the Latin American banking sector, in this case in the context of the Silicon Valley Bank crisis in 2023.