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EXECUTIVE SUMMARY

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Figure 1.1
Agents and markets relevant to financial stability (a)

HOUSEHOLDS	Historically low debt level
	Sound performance of income, employment and wealth
	Interest burden around the highest levels of the last decade, but starting to decline, aided by lower interest rates
FIRMS	Historically low debt level
	Sound profit performance
	Interest burden around the highest levels of the last decade, but starting to decline, aided by lower interest rates
PUBLIC SECTOR	High debt level
	Upside risks to government expenditure (defence, demographics, etc.)
	Lack of specificity in fiscal consolidation plans
BANKING SECTOR	Favourable setting for bank profitability
	Bank solvency and liquidity positions noticeably above requirements
	Limited strengthening of bank solvency in the period 2022-2024
	Higher growth in lending to the private sector in Spain in 2024
	Positive developments in the NPL and stage 2 ratios
NON-BANK FINANCIAL SECTOR	The non-bank financial sector continues to gain share relative to the banking sector and its vulnerabilities at global level (high leverage and liquidity transformation) may amplify shocks and contribute to the tightening of financial conditions, affecting the banking sector via interconnections
	Open-ended investment funds domiciled in Spain have lower leverage than the European average
REAL ESTATE MARKET	Real house prices have risen due to the strength of demand in relation to supply. In this setting, indicators of house price imbalances have held at moderate levels
	Mortgage lending standards remain stable
FINANCIAL MARKETS	Tensions in the US public debt market and dollar depreciation following the tariff policy shifts
	Equity market volatility spiked in April driven by economic policy uncertainty
	Risky asset valuations remain high
	High concentration of global stock market capitalisation in the technology sector

SOURCE: Banco de España.

a The green (red) shields denote the circumstances of the financial position of each sector that constitute strengths (vulnerabilities) should risks materialise. The strengths (vulnerabilities) reduce (increase) the likelihood of occurrence or the impact of the risks to financial stability.

The financial position of the sectors that are key to the stability of the Spanish financial system has fared favourably since the Autumn 2024 *Financial Stability Report* (FSR) was published, although some vulnerabilities persist in a global geopolitical and macro-financial environment marked by a high level of uncertainty.

Households and firms

Spanish households and non-financial corporations (NFCs) have strengthened their financial position (see Sections 2.1 and 2.2) and both sectors' debt levels remain low by historical standards. In addition, their income and employment levels have fared well. Meanwhile, the monetary policy easing in the euro area and the consequent fall in key policy rates have started to lower the interest burden for both sectors, although it has remained around the highest levels of the last decade.

Public sector

By contrast, Spanish general government is in a more vulnerable financial position[1] (see Section 2.3). The debt-to-GDP ratio, which fell by 3.3 percentage points (pp) in 2024, remains at high levels (101.8%). The budget deficit stood at 3.2% of GDP in 2024, down 0.3 pp from a year earlier. As has been the case since 2021, the decline in the debt ratio has owed to the increase in nominal GDP, which has outpaced pressure from a positive primary deficit, higher interest expenses and the effect of extraordinary expenditures, such as those linked to the October 2024 flash floods. According to Banco de España projections, the debt ratio and budget deficit will only decline moderately over the coming years.

The foreseeable increase in defence spending – a Europe-wide challenge – raises the risk of Spanish government debt increasing and deviating from the projections. Population ageing and the need for public resources to fund part of the Spanish economy's digital and green transitions also contribute to this risk.

The high level of government debt reduces the Spanish economy's fiscal resilience. It also means that government expenditure is more sensitive to a potential tightening of financing conditions. Greater specificity in the Spanish Government's Medium-Term Fiscal-Structural Plan 2025-2028, which currently does not set out concrete measures to ensure compliance, would help to contain these vulnerabilities.

1 This report analyses the financial position of households and firms, general government and financial intermediaries, zeroing in on their main vulnerabilities, which are those financial and economic conditions that increase the impact or likelihood of the materialisation of risks to financial stability.

Banking sector

The Spanish banking sector's financial position continues to fare well, while its resilience to risks remains stable. Profitability rose again in 2024, driven by growth in net interest income and, to a lesser extent, net fee and commission income and trading income (see Section 3.1). Return on equity (ROE) stood at 14.1%, increasing by 1.7 pp year-on-year and 3.7 pp since 2021. Similarly, return on assets (ROA) rose by 14 basis points (bp), to 0.93%. Spanish listed banks' 2025 Q1 earnings continued to show year-on-year growth in profit.

This improvement in profit generation has resulted in an increase in the volume of dividends and net share buybacks, to 1.1% of risk-weighted assets (RWAs) in 2024, compared with 0.9% in 2023 and 0.4% in 2021 (see Section 3.1.1). Greater profit distribution nevertheless limits the growth in the capital available to contend with adverse economic scenarios.

In this respect, Spanish banks' solvency position strengthened moderately in 2024, with the CET1 ratio[2] growing by 30 bp, to 13.5%, and a voluntary buffer of 3.6%.[3] Meanwhile, the leverage ratio rose by 13 bp, to 5.7%.

Spanish banks' CET1 ratio is lower than that of the other main European banking systems, while the leverage ratio is at a comparable level.[4] The difference between Spanish and European banks' voluntary CET1 ratio buffer is also smaller (see Section 3.1.2).

The results of different stress tests show considerable aggregate resilience to scenarios in which systemic risks materialise, which would also be underpinned by some credit deleveraging in such scenarios, helping to partially offset the depletion of available capital.[5]

Spanish banks' consolidated assets grew by 3.3% in 2024, driven by business abroad (see Section 3.1.3). Turning to business in Spain, their lending to resident households and NFCs increased in 2024 by 1.2% and 0.4%, respectively (see Section 3.1.4). Although moderate, this growth marks a turnaround in the contraction in lending in Spain between end-2022 and mid-2024, associated with the key policy rates rises that began in 2022.

2 The CET1 ratio is defined as common equity tier 1 (CET1) capital, which is the highest quality of regulatory capital, divided by RWAs. Assets with lower associated financial risks (e.g. government debt) receive a lower weighting in the calculation of the denominator. The logic behind this lower weighting is that it is less likely that lower-risk assets incur unexpected losses that need to be absorbed by available capital.

3 The voluntary buffer is the difference between the CET1 ratio and the sum of the level required by prudential supervisors and the Pillar 2 Guidance. For comparison with the European figure from the European Banking Authority, the figure provided considers only CET1 requirements. Taking into account the Tier 1 capital and total capital requirements, in addition to the leverage ratio and the minimum requirement for own funds and eligible liabilities, Spanish banks' overall voluntary buffer stands at 3.0%.

4 The leverage ratio is defined as Tier 1 capital (CET1 capital plus additional Tier 1 capital) divided by non-risk-weighted on- and off-balance sheet assets.

5 Credit deleveraging is observed in the stress tests with a dynamic component, such as the 2024 Forward Looking Exercise on Spanish Banks and that conducted as part of the Spain Financial Sector Assessment Program of the same year (see paragraph 62 of the Technical Note on Systemic Risk Analysis).

The credit quality of lending to the private sector in Spain improved in 2024. In December 2024 the non-performing loan ratio[6] stood at 3.2% and the stage 2 ratio[7] at 6.4%, down 0.2 pp and 1.2 pp, respectively, from a year earlier (see Section 3.1.4).

Amid monetary policy rate cuts, the average cost of bank liabilities stabilised at 3.1% in December 2024 (see Section 3.1.5). By liability category, the stabilisation in the average rate on deposits from households and firms stood out. Monetary policy rate cuts will foreseeably drive down the cost of liabilities in the coming quarters.

Spanish banks' liquidity position remains favourable (see Section 3.1.5). In December 2024 the liquidity coverage ratio and net stable funding ratio of the main Spanish banks stood at 167.9% and 132.9%, respectively. These were above the European averages of 163.4% and 127.1% and comfortably over their minimum required levels (100%). The liquidity position is favourable both for euro positions and for those in the other significant currencies for Spanish banks' business.

Non-bank financial sector

The non-bank financial (NBF) sector accounts for a growing proportion of the financial system globally, across Europe and in Spain (see Section 3.2).[8] While banks retain a dominant role in Spain, a potential deterioration in the NBF sector's position at European and global level would also affect the Spanish financial system's stability through direct interconnections (see Section 3.3), downward price corrections to assets in which they hold common positions and a general tightening of financial conditions on wholesale markets (see Section 4.2). In this respect, there continue to be concerns globally over the high level of leverage and the tight liquidity positions of some NBF subsectors, in particular open-ended investment funds and hedge funds.[9,10]

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6 Non-performing loans are those for which there is a significant probability of default by the debtor, either because they are more than 90 days past due on a principal or interest repayment or because there is reasonable doubt about the customer's ability to meet its obligations, even if they have not fallen due.

7 Those loans which are not "non-performing", but which show signs of impairment in the debtor's financial position or in the loan's credit quality are classified as stage 2 loans.

8 The NBF sector includes money market funds, non-monetary investment funds, insurance companies, pension funds and other non-bank financial intermediaries. In turn, the latter subcategory includes specialised lending institutions, venture capital firms, securities dealers, special-purpose vehicles, central counterparty clearing houses, real estate investment trusts, securities agencies, collective investment institution management companies, mutual guarantee societies, financial group head offices, appraisal companies, payment institutions, holding companies, special-purpose entities that issue securities and other specialised financial institutions.

9 Open-ended investment funds can be redeemed at sight and, unless exceptions have been established, investors can realise their investment at any time. Hedge funds are investment funds that seek to maximise their profitability and have no restrictions on their investment strategy.

10 In this respect, see also Section 4.2 of the European Central Bank's November 2024 *Financial Stability Review* and Chapter 1 of the International Monetary Fund's October 2024 *Global Financial Stability Report.*

Real estate market

The outstanding stock of loans for house purchase in Spain rose by 0.5% year-on-year in 2024, while new home mortgages grew by 34.6%. However, the flow of new mortgages remains subdued relative to outstanding lending to the private sector or nominal GDP (see Section 4.1).

New mortgage lending grew in 2024 amid a sharp rise in transactions and real prices in the housing market. However, favourable developments in household income and contained interest rates have so far kept signs of growing house price imbalances at moderate levels. The terms and conditions of new mortgage lending are not currently signalling an easing of credit standards (see Section 4.1).

Financial markets

Monetary policy in the main advanced economies has continued to ease since publication of the last FSR in autumn 2024, and it has done so more quickly in the euro area than in the United States. Following the tariff policy announcements by the United States in early April and the consequent financial turmoil, expectations of further key policy rate cuts have grown in the euro area, but not in the United States. Against this background, yields have continued to fall on the euro area interbank markets while the volume of business expands, driven by the reduction in the Eurosystem's balance sheet.

The financial markets experienced an episode of instability and high volatility following the announcements of higher US tariffs in early April (see Section 4.2). The episode was short lived and markets have gradually stabilised with the easing of the trade tensions. The valuations of risky financial assets remain high by historical standards, especially in the United States.

In response to the escalation of the trade tensions, on bond markets US Treasuries experienced liquidity tensions and rises in their long-term yields in early April, while the German Bund acted as a safe-haven asset. European and US corporate bond markets saw sharp rises in risk premia in April that have since reversed. Corporate spreads are currently at somewhat higher levels than at the cut-off date for the last FSR, but they remain below their historical median in the high yield (higher risk) segment.

On equity markets, global stock market indices responded with a steep drop following the tariff announcements, although they subsequently levelled off and stock valuations have recovered. The European indices have recorded gains so far in 2025, driven by sound banking sector earnings and the prospects of higher defence spending. Overall, the prices on the main global stock market indices are high by historical standards.

On foreign exchange markets, trade tensions have triggered a depreciation of the US dollar against the euro. On the whole, US dollar-denominated assets have not acted as safe-haven assets like in previous episodes of financial turbulence. Due to the US dollar's pivotal role in international trade and financial transactions, this contributes significantly to raising the uncertainty surrounding global macro-financial developments.

Financial markets in the emerging market economies have proven resilient to the April turmoil, with relative stability in sovereign bond spreads and exchange rates. The latter have fluctuated more in Latin America, where currencies have performed relatively more weakly against the US dollar.

Risks

While the overall picture is one of contained financial vulnerabilities in the domestic sectors, except for general government (Figure 1.1), significant risks to financial stability are however detected.[11]

First, geopolitical uncertainty could materialise in the form of very adverse effects on activity and risk aversion. In this respect, the following are particularly relevant: (i) uncertainty over the United States' policies (for example, on trade, fiscal matters, financial regulation and the environment) and its strategic positioning; (ii) the possible escalation of military conflicts; and, to a lesser extent, (iii) policy uncertainty in the European Union. These factors may give rise to a heterogeneous range of adverse scenarios whose implications need to be analysed separately (see Section 5.1).

After April's heavy turbulence triggered by the announcement of tighter tariffs in the United States, trade policies have swung towards negotiation and less aggressive stances. In particular, the United States has introduced different exemptions and pauses on the initial announcements, while China has also eased some of the harsh countermeasures it adopted. However, it is difficult to predict the medium and long-term outcome of these trade negotiations. More broadly, policy uncertainty, particularly in the United States, remains high even though the financial markets overcame the turbulence in an orderly fashion.

Despite the highly uncertain setting, investors have continued to show a low level of risk aversion since the last FSR. In many cases risk premia remain at low levels by historical standards. Thus, the possibility of sudden, sharp financial market corrections continues to pose a high risk to financial stability (see Section 5.2).

Aside from the geopolitical risks, certain macroeconomic risks with implications for financial stability also exist. In particular, if inflation remains higher in the United States than in the euro area, this could result in a greater monetary policy divergence (see Section 5.3). This scenario

11 The risks are identified in this report as adverse changes – with an uncertain probability of occurrence – in economic and financial conditions, or in the physical or geopolitical environment, which hamper or impede financial intermediation, with negative consequences for real economic activity.

would contribute to a tightening of global financial conditions and to higher uncertainty over exchange rates.

Cyber risk management is becoming an increasingly key factor behind finance running smoothly, even more so amid geopolitical tensions (see Section 5.4). Although cyber incidents may trigger significant operating disruptions, they are less capable of unleashing a systemic liquidity crisis, thanks in part to the tools for managing this type of scenario available to both banks and supervisors. However, uncertainty exists over new forms of cyber attack that could emerge and it is necessary to remain vigilant.

Macroprudential policy

The Banco de España's macroprudential policy stance (see Chapter 6) is geared towards strengthening the banking sector's releasable capital in order to better support the provision of credit to the Spanish economy in the event of a downturn in the business cycle.

With cyclical systemic risk in Spain currently at an intermediate level, the Banco de España activated the countercyclical capital buffer (CCyB) for exposures located in Spain at 0.5% in 2024 Q4 (applicable as of 2025 Q4). If this risk remains at an intermediate level, the Banco de España's CCyB requirement will foreseeably be raised to 1% in 2025 Q4 (applicable as of 2026 Q4).

At present, it has not been deemed necessary to activate or modify any other macroprudential measures. All the same, the Banco de España continues to monitor closely the macro-financial environment and any systemic risks to financial stability, including changes in credit standards for lending to households and NFCs. In this respect, the Banco de España is making headway in the development of its analytical framework to inform its policy on limits in credit conditions, which, as the macroprudential authority for the banking sector, the Banco de España has the power to activate.

The cut-off date for this report is 12 May 2025.