

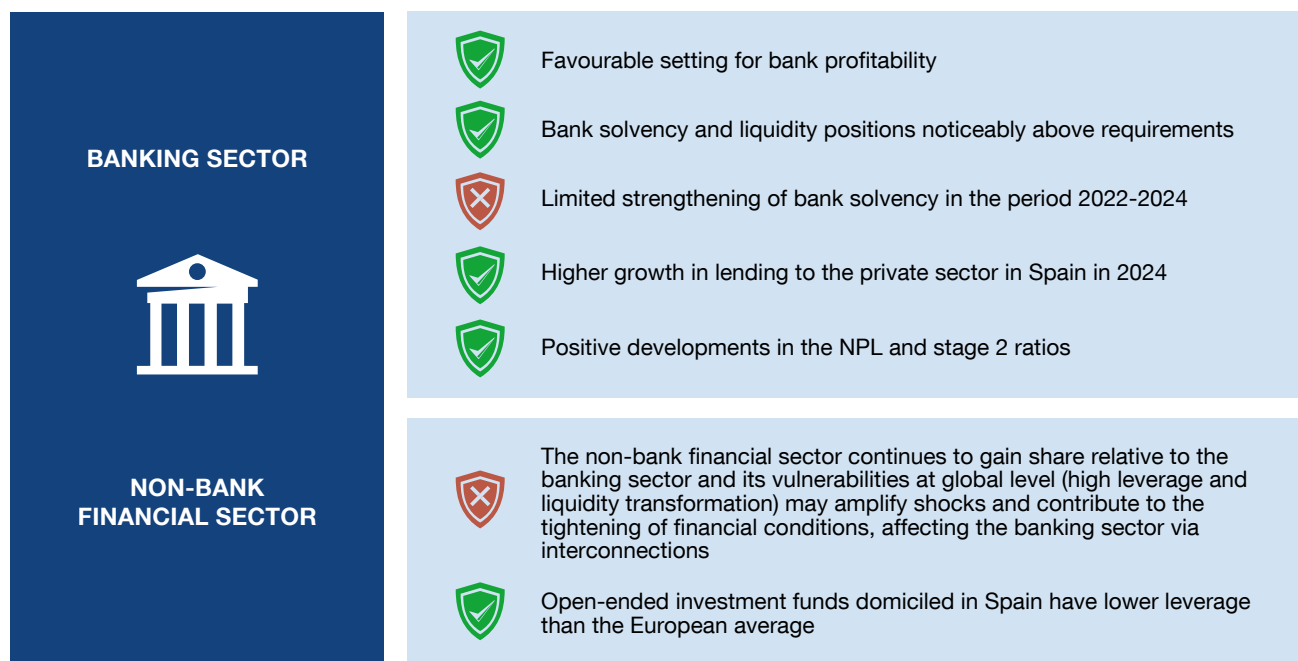
3

FINANCIAL POSITION OF BANKS AND THE NON-BANK FINANCIAL SECTOR

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Figure 3.1

Financial position of banks and the non-bank financial sector (a)



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.

3.1 Banking sector

3.1.1 Profitability

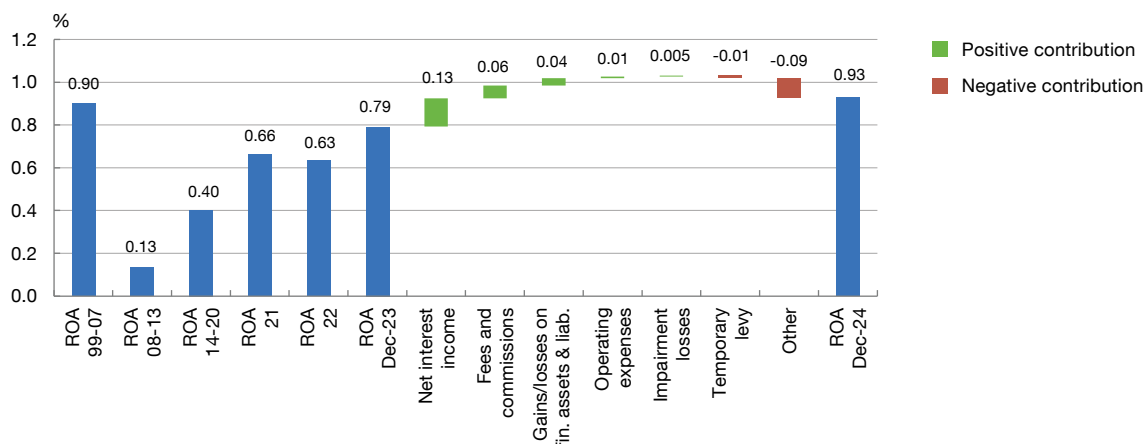
The improvement in bank profitability observed in recent years has continued, with consolidated net income growing by 21% in 2024. The return on assets (ROA) of Spanish banks was 0.93% in 2024, compared with 0.79% in 2023 (Chart 3.1.a). Similarly, the return on equity (ROE) increased by 1.7 percentage points (pp) to 14.1% (see Chart A2.3.1.1.1 in Annex 2). This improvement was seen across all banks, as demonstrated by the ROA distribution's shift to the right between 2023 and 2024 in Chart 3.1.b.

Profitability has improved in both business in Spain and business abroad. In 2024 the ordinary earnings of the three institutions with the most business abroad increased substantially in Spain, but also in the main foreign geographical regions where they operate, except the United Kingdom (Chart 3.2). Mexico remained the top foreign contributor to these institutions'

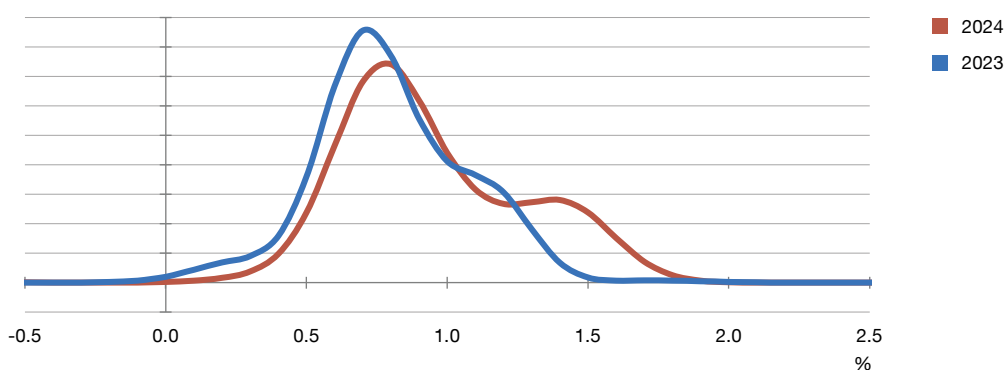
Chart 3.1

The Spanish banking sector's ROA continued to improve across the board in 2024, driven mainly by higher net interest income

3.1.a Breakdown of the change in ROA. Consolidated net income as a percentage of average total assets. Consolidated data (a)



3.1.b Distribution of ROA by bank. Consolidated data (b)



SOURCE: Banco de España. Latest observation: December 2024.

- a The green (red) colour of the bars denotes a positive (negative) contribution of the corresponding item to the change in ROA at December 2024 compared with December 2023.
- b The chart shows ROA density for Spanish banks (weighted by total consolidated assets). The density function is estimated using a kernel estimator, which provides a non-parametric estimate, yielding a continuous and smoothed graphical representation of that function.



earnings (almost 30% of total earnings, a figure approaching Spain's share of 37%), followed by Brazil (10%), the United Kingdom (6%), the United States (5%) and Türkiye (2%).

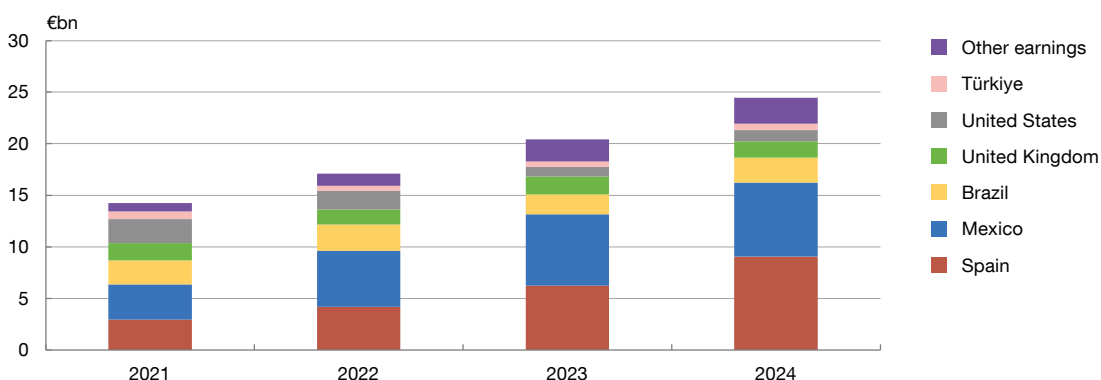
The sector's overall profitability increased mainly as a result of higher net interest income. Despite the cuts in reference interest rates, this item increased by almost 9% compared to the previous year (see Annex 1). This was due to favourable price developments (higher unit margins)¹ and quantity developments (driven by the recovery of credit). However, this growth in net interest income remained below the 22% recorded in 2023. Going forward, the anticipated reference interest rate cuts can be expected to reduce net interest income growth, with falls in unit margins, which could be partially offset by more favourable business

¹ The ratio of interest income to average earning financial assets rose from 5.3% in 2023 to 6.1% in 2024. Meanwhile, the ratio of interest expenses to the same denominator (average earning financial assets) rose from 2.8% in 2023 to 3.4% in 2024. The greater increase on the interest income side led to an increase in unit margins in 2024.

Chart 3.2

The earnings of the three institutions with the most business abroad increased in the main geographical areas where they operate, except in the United Kingdom

3.2.a Geographical distribution of ordinary profit attributable to the controlling entities of the three institutions with the most business abroad (a). Consolidated data



SOURCE: Banks' financial reporting. Latest observation: December 2024.

a The group of banks with the most business abroad includes the three in which international activity is most important and longest-running. Earnings are measured excluding non-recurring items. The "Other earnings" category includes earnings in other countries and those of the banks' corporate centres.



volume developments. The publication of the main listed Spanish banks' first quarter earnings reports shows that profitability has continued to trend upward. However, their net interest income has narrowed compared with the same quarter of last year, reinforcing expectations of a lower future contribution of this item to profit (see Table A2.3.1.1.2 in Annex 2).

Fees and commissions also increased over the past year, further contributing to the improvement in profitability. Profits from this item grew by more than 11%, a significantly higher rate than in the previous year.² In the same vein, the increase in gains and losses on financial assets and liabilities also helped boost profit. Thus, the combined year-on-year rise in net interest income, fees and commissions, and gains and losses on financial assets and liabilities exceeded the 2.5% increase in operating expenses, contributing to the 16.9% rise in net operating income.³

Although financial impairment losses rose slightly in 2024, they decreased moderately as a share of net operating income.⁴ Impairment losses increased by 2%, to a lesser extent than net operating income, meaning that the ratio between them decreased (by 4 pp) (see Chart A2.3.1.1.3 in Annex 2). Were systemic risks to materialise (see Chapter 5), curbing economic growth and deteriorating credit quality, this ratio could worsen. Therefore, although it is currently at favourable levels, it should continue to be closely monitored.

² Fees and commissions increased across all categories including payment services, securities management, currencies and, most notably, card payments, where fees and commissions grew in year-on-year terms by 19%.

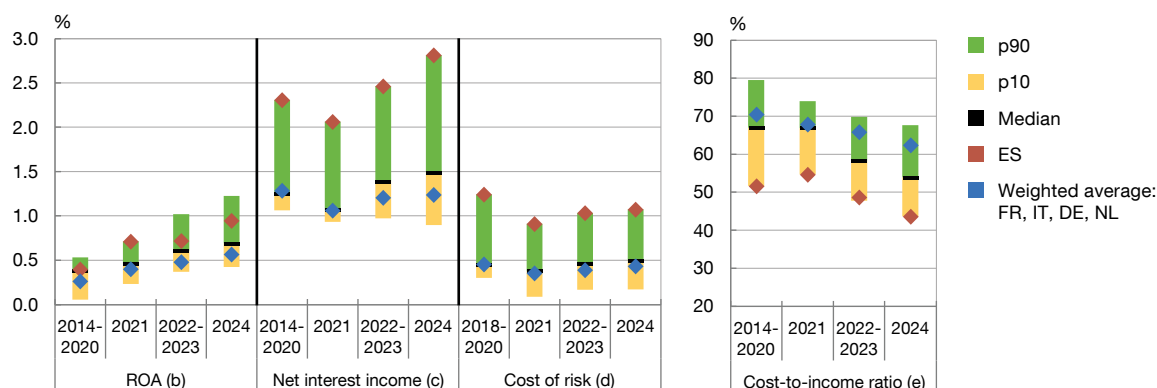
³ Net operating income is defined as gross income less operating expenses. Gross income is defined as the sum of profits or losses from the bank's ordinary activities. This mainly includes net interest income, fees and commissions, and gains and losses on financial assets and liabilities, but also other net operating income.

⁴ These losses are recorded to capture the lower value of financial assets in the event of defaults or, more broadly, information indicating a reduced likelihood that banks' counterparties will comply with their credit obligations.

Chart 3.3

In terms of profitability, Spanish banks outperform other banks in the main EU economies, underpinned by higher net interest income and greater operational efficiency

3.3.a European comparison of the main profitability and operational efficiency variables (a). Consolidated data



SOURCE: EBA. Latest observation: December 2024.

- a For each variable and time period, the chart depicts the distribution of the variable across countries weighted by the size of their banking sectors in terms of total assets. Note that the EBA database contains aggregate data by country for each variable. For periods of several years, a single value per country is obtained by taking the simple average of the variable by country over that period. The statistics shown in the chart are calculated based on this weighted distribution. The average of the banking systems of the other four large EU economies is also weighted by size, based on the total assets of their respective banking sectors.
- b ROA is defined as net profit to total assets.
- c Net interest income is defined as net interest earned to total income-generating assets.
- d The cost of risk is defined as provisions for financial impairments divided by gross lending. Reporting for this variable began in 2018.
- e The cost-to-income ratio is defined as operating expenses divided by gross income, with lower values denoting higher efficiency.

Operational risk losses reached a five-year high in 2024. The rise in customer claims due to several unfavourable court rulings on mortgage expenses, coupled with the adoption by some banks of a new, more conservative model for calculating provisions for legal contingencies, have driven operational risk losses to a historically high value in 2024 (see Chart A2.3.1.1.4 in Annex 2).

The increased tax burden on the sector has continued to reduce profit growth slightly. Without the impact of the extraordinary levy on banks, which was applied on both their 2023 and 2024 profit, year-on-year growth in net profit would have been very similar (21.7%), ROA would have stood at 0.97% (instead of 0.93%) and ROE at 14.7% (instead of 14.1%).⁵ Replacing this levy with a new tax will prolong the heightened tax burden on the sector to at least 2026 (see Box 3.1).

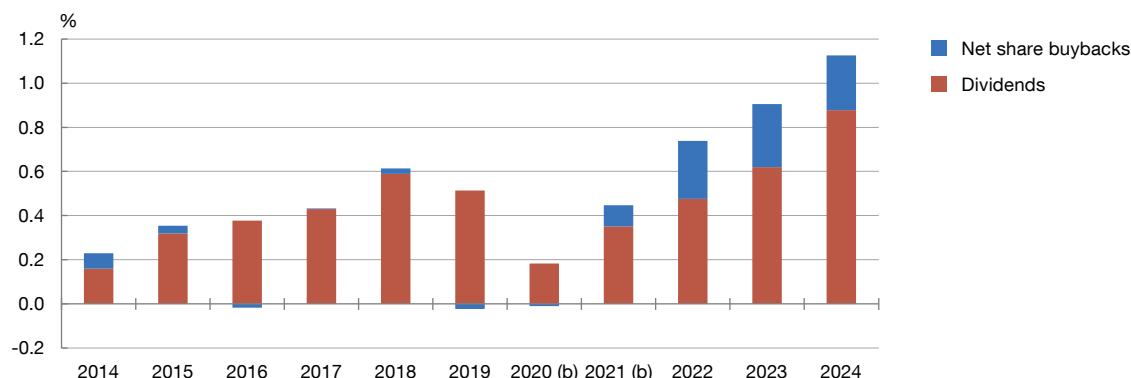
Spanish banks have consistently outperformed the other major banking systems in the European Union (EU) in terms of profitability. The profitability of all EU banks increased in the higher interest rate environment that followed the COVID-19 health crisis, with Spanish banks maintaining the positive gap they already had in 2014-2021 (Chart 3.3). Net interest

⁵ Based on the information provided by the Ministry of Finance in the [December 2024 budget outturn](#), the levy paid in 2024 was €1,647 million, up 41% on that paid in 2023. At the same time, the overall corporate income tax expense recorded by credit and specialised lending institutions for their business in Spain was €6,494 million in 2024.

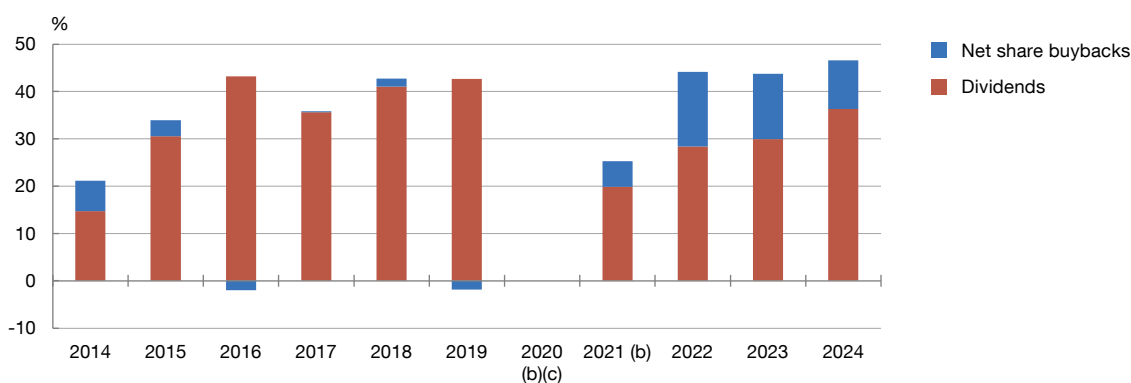
Chart 3.4

The improvement in bank profitability in recent years has led to an increase in profit distribution

3.4.a Dividends and net share buybacks as a percentage of RWAs (a). Consolidated data



3.4.b Dividends and net share buybacks as a percentage of net profit (a). Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

- a The information on dividends and net share buybacks comes from statements of changes in equity. The impact of dividends recognised in a particular year may derive from profits obtained in previous years.
- b An ECB recommendation to limit dividend distribution was in force in 2020 and 2021.
- c Dividends and buybacks as a percentage of net profit are not calculated for 2020, given that the sector as a whole recorded losses.

income, which has risen appreciably since 2021, continues to be the main differential factor behind this higher profitability, more than offsetting the negative contribution from Spanish institutions' higher cost of risk (defined as provisions divided by gross lending), which has remained relatively stable in recent years. Meanwhile, Spanish banks maintain their comparative advantage in operational efficiency, leading to consistently lower cost-to-income ratios (measured as operating expenses divided by gross income) than at their European peers.

Profit distribution, through dividends and net purchases of own shares, increased in 2024 in absolute terms and as a percentage of both risk-weighted assets (RWAs) and profit. Profit distributed to shareholders as a share of RWAs increased in 2024 to 1.1%, the highest value in recent years (Chart 3.4.a), making the banking sector more attractive to investors. This higher shareholder remuneration is explained by both the aforementioned improvement in profit and the almost 3 pp increase in the percentage of net profit allocated to shareholder remuneration (Chart 3.4.b).

The trade-off for this higher profit distribution is reduced allocation of resources towards shoring up solvency to address less favourable profitability conditions. If market expectations bear out and lower reference interest rates take hold, net interest income could stop driving profitability growth, as mentioned above. In addition, the current climate of uncertainty poses downside risks to the banking sector's profitability under this baseline scenario, which already envisages a moderation (Chapter 5). Against this background, the current favourable cyclical position of bank profitability (see Chart 3.1.a and Chapter 6) could make it easier for banks to accumulate loss-absorbing resources against risk scenarios.

3.1.2 Solvency

The Common Equity Tier 1 (CET1) ratio and the voluntary capital buffer rose moderately in 2024 thanks to an increase in the volume of CET1 capital. At end-2024, the Spanish banking system's CET1 ratio stood at 13.5%, up 30 basis points (bp) on the previous year (Chart 3.5.a). This increase was due to the 6% growth in CET1 capital in year-on-year terms, which offset the negative contribution from the 3.6% year-on-year increase in RWAs.⁶ RWA growth in the last year is mainly explained by an increase in total assets (see Section 3.1.3) and, to a lesser extent, the rising risk profile for Spanish banks (higher RWA density). The voluntary capital buffer increased by 16 bp on the previous year, to 3.6%.⁷

The Spanish banking system's leverage ratio increased slightly in 2024. At the end of last year, the leverage ratio stood at 5.7%, up 13 bp on the previous year (Chart 3.5.b).⁸ This rise was due to the increase in Tier 1 capital, which grew by 5.9% in 2024 and offset the growth in the non-risk-weighted total exposure (3.6% for the same period).

Banks' distributions for these two solvency ratios remained fairly stable in 2024 and dispersion increased only marginally. Thus, Spanish banks were somewhat less clustered around the average CET1 ratio than they were in 2023 (Chart 3.6.a). Some banks have shifted to higher ratio levels. However, there is also a slight increase in the weight of institutions with lower CET1 ratio levels. A similar but less marked pattern can be seen in the leverage ratio distribution (Chart 3.6.b). Overall, these changes in the distribution are not significant from a systemic point of view.

The Spanish banking system's CET1 ratio remained below that observed for the other main European banking sectors, although the gap narrowed slightly. At end-2024 the

6 The change in the CET1 capital ratio can be broken down into the contribution of CET1 capital (the numerator) and RWAs (the denominator). The contribution of the latter can, in turn, be broken down into the contribution of total assets (TA) and RWA density. RWA density is the ratio between RWAs and TA, with higher values indicating a higher risk profile.

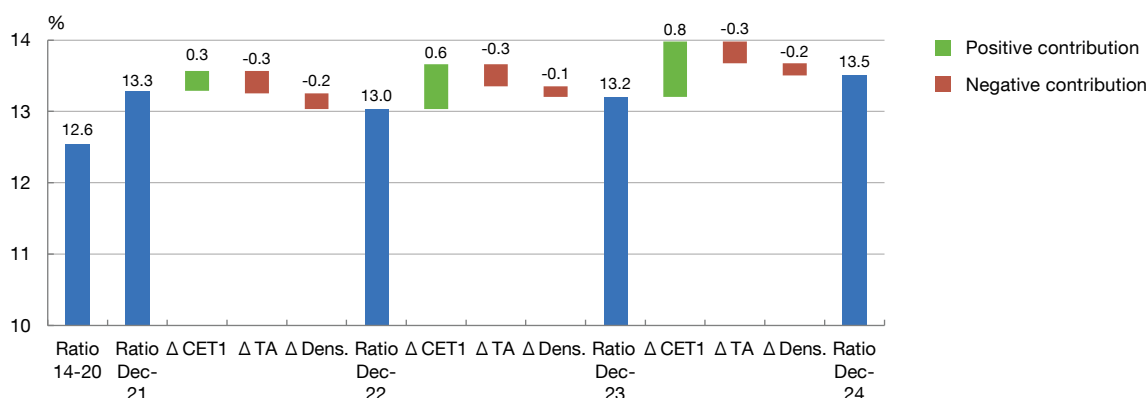
7 This voluntary buffer is calculated as the CET1 ratio minus the prudential requirements and Pillar 2 guidance, taking into account only the CET1 requirements. It can thus be compared with the European-level data published by the European Banking Authority (EBA). When the T1 and total capital requirements are also taken into account, together with the MREL and leverage ratio requirements, the voluntary buffer is 3%.

8 The leverage ratio is calculated by dividing Tier 1 capital by total exposure.

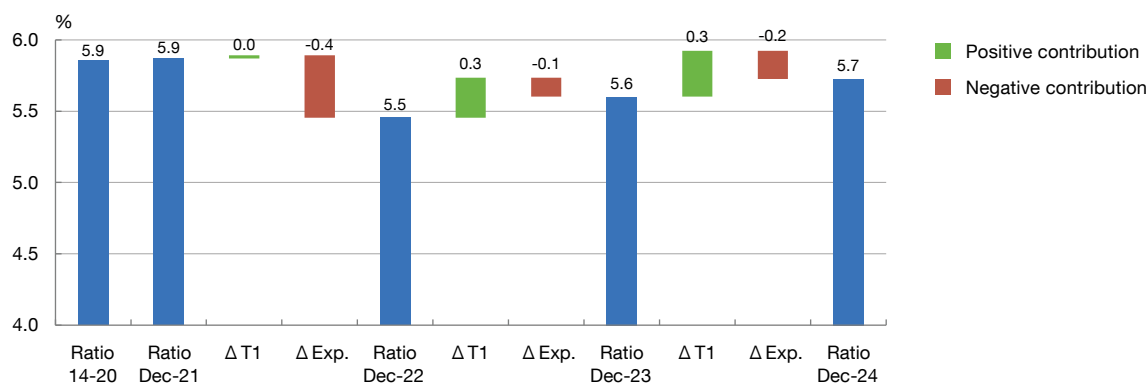
Chart 3.5

The Spanish banking system's CET1 and leverage ratios increased in 2024, driven by the growth in bank capital

3.5.a Breakdown of the change in the CET1 ratio between 2021 and 2024 (a). Consolidated data



3.5.b Breakdown of the change in the leverage ratio between 2021 and 2024 (b). Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

- a The CET1 ratio is calculated as the ratio of CET1 to risk-weighted assets (RWAs). RWAs can be calculated as total assets (TA) x density (Dens.), where density is calculated as the ratio of RWAs to TA. Therefore, in the chart, the change in the CET1 ratio is broken down into the change in CET1, total assets and density. The green (red) bars denote positive (negative) contributions from components. In Spain, the Basel III capital requirements were introduced in 2014 and the information about the CET1 ratio became available for the first time that year.
- b The leverage ratio is calculated as the ratio of Tier 1 capital (T1) to total exposure (Exp.). In the chart, the change in the leverage ratio is broken down into the change in T1 and Exp. The green (red) bars denote positive (negative) contributions from components.



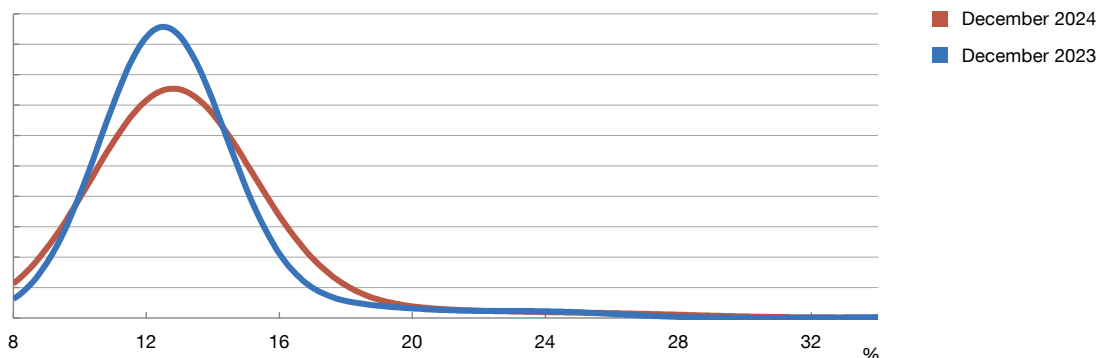
Spanish banking system's CET1 ratio was below that of countries such as Germany, France, Italy and the Netherlands (see left-hand panel of Chart 3.7).⁹ It was also 3.2 pp lower than the EU average. In the last year, the gap between the Spanish banks' CET1 ratio and that of their main European peers narrowed by between 24 bp and 36 bp, with the exception of Italy, where this gap widened by 3 bp. The increase in the Spanish and Italian banking system's CET1 ratio was driven by their recent profitability growth, due to the higher share of variable rate loans in their business models.

⁹ The solvency ratios for the Spanish banking system used in Charts 3.5 and 3.6 differ from that in Chart 3.7. Charts 3.5 and 3.6 use national data for all banks, while Chart 3.7 uses EBA data for the main EU banks, including ten Spanish banks, for European comparison purposes.

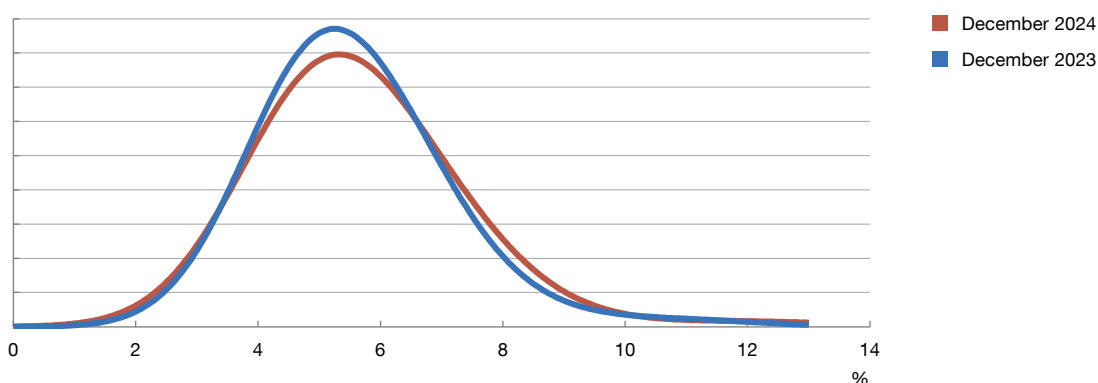
Chart 3.6

Dispersion across banks of the CET1 and leverage ratios remained relatively stable in 2024

3.6.a Distribution by bank of the CET1 ratio (a). Consolidated data



3.6.b Distribution by bank of the leverage ratio (a). Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

a The charts show CET1 ratio and leverage ratio density, respectively, for Spanish banks (weighted by total consolidated assets). The density function is estimated using a kernel estimator, which provides a non-parametric estimate, yielding a continuous and smoothed graphical representation of that function.

The Spanish banking sector's voluntary CET1 buffer is also lower than that of other European banks, but the difference is smaller than in the case of the CET1 ratio. In the last period for which data is available Spain's voluntary buffer gap relative to the EU average was 1.8 pp.¹⁰ The smaller CET1 gap in terms of the voluntary buffer reflects the Spanish banking system's lower capital requirements.¹¹

The Spanish banking system's leverage ratio remained at a level comparable to that of the other major European banking sectors. At the end of last year it stood 0.4 pp below the EU average (right hand panel of Chart 3.7). The leverage ratio in Spain was somewhat higher than in France and lower than in Germany, Italy and the Netherlands. The smaller leverage

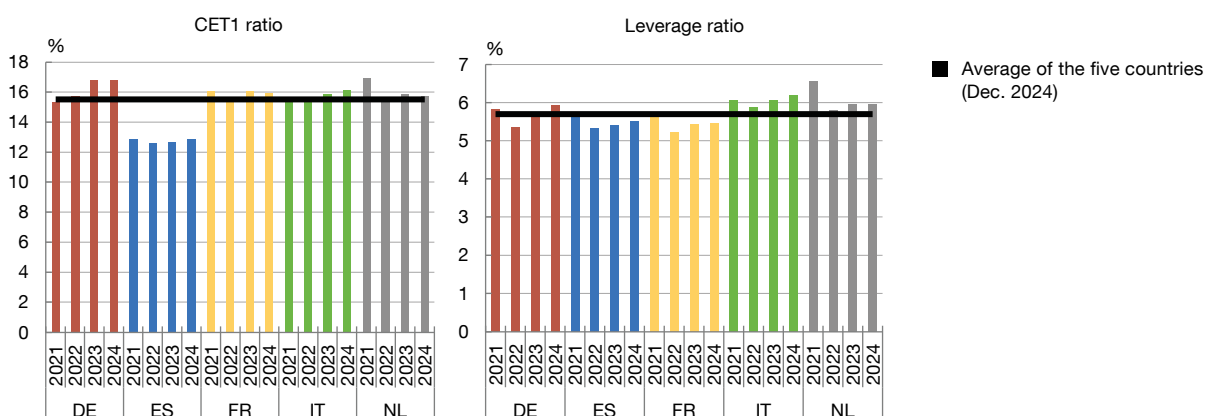
¹⁰ Data at June 2024 (the latest capital buffer figure reported by the EBA).

¹¹ For example, lower Pillar 2 capital requirements and macroprudential buffers.

Chart 3.7

The increase in the Spanish banking system's CET1 and leverage ratios in 2024 slightly narrowed the respective gaps relative to the ratios of other major European banking sectors

3.7.a European comparison of the CET1 and leverage ratios between 2021 and 2024. Consolidated data



SOURCE: EBA. Latest observation: December 2024.



ratio gap between the Spanish banking sector and its European peers compared with the CET1 ratio gap owes essentially to Spanish banks' higher RWA density, which is determined by their balance sheet composition and more limited use of the internal ratings-based (IRB) approach for calculating RWAs.¹²

According to the results of different stress tests, Spanish banks' current solvency levels provide considerable aggregate resilience.¹³ In the dynamic stress tests, this resilience appears to be partly underpinned by a lower provision of credit to the private sector, which mitigates the consumption of available capital in the event of adverse scenarios.¹⁴ Moreover, these exercises focus on very severe but specific scenarios. The current heightened uncertainty therefore calls for proactive analysis of macro-financial risks to identify possible alternative and significant stress scenarios, as well as carefully planning for possible unexpected losses.¹⁵

¹² Note that the CET1 ratio can be approximated by dividing the leverage ratio by RWA density, although this calculation is not entirely accurate, as capital (the numerator of the leverage ratio) also includes AT1 capital instruments and, in addition, the leverage exposure (the denominator) may differ from total assets.

¹³ See the results of the [2023 EBA stress test exercise](#), the Banco de España's top-down [2024 Forward-Looking Exercise on Spanish Banks \(FLESB\)](#) and the International Monetary Fund (IMF) stress test exercise conducted during the 2024 Financial System Assessment Program (FSAP) in Spain (see [Technical Note on Systemic Risk Analysis](#)).

¹⁴ For example, according to the latest stress test exercise for Spanish banks within the FLESB framework, lending in Spain would fall by 6% over a three-year horizon under the adverse scenario. Meanwhile, credit would fall by 1% over a three-year horizon, with a maximum year-on-year fall of 2% under the adverse scenario envisaged by the IMF in its 2024 FSAP for Spain. The Spanish banking system also shows significant loss-absorbing capacity in the 2023 EBA stress test, which assumes constant exposures under the scenarios considered.

¹⁵ The updated results of the stress test exercise for Spanish banks within the FLESB framework are expected to be published in autumn 2025, while the results of the EBA exercise are expected to be published in early August 2025.

Maintaining strict capital requirements within a sound regulatory and supervisory framework is compatible with simplifying this framework to make it clearer and more predictable. With regard to capital requirements, in 2024 the EU finalised the transposition of Basel III, which entered into force in January, with the exception of the new market risk framework. This framework will only enter into force in January 2026 and a consultation process launched by the European Commission is now under way to assess possible further delays,¹⁶ in response to the deviations observed in the United States and the United Kingdom in the implementation of the final Basel III reforms. Despite this, the implementation of Basel III globally must remain a priority to avoid a build-up of systemic risks worldwide (see Section 5.1 and Box 5.3 for a more detailed discussion of the financial deregulation initiatives in the United States and their associated risks). This should be compatible with a review of the regulatory and supervisory framework in the European Union to make it simpler, clearer and more predictable, without compromising the resilience of the banking sector, as requested by the central banks of Spain, Germany, France and Italy in a letter to the European Commission dated February 2025.¹⁷ The simplification process should be holistic, considering the different tiers of the regulatory and supervisory framework (for example, regulatory standards and guidelines) and its various areas (microprudential, macroprudential and resolution).

The market capitalisation of European banks has grown significantly since end-2022, contributing to the improvement of various valuation and risk metrics. During 2024 and 2025 Q1, the price-to-book (PTB) ratios of European banks remained on the upward trend that began in 2023.¹⁸ In Q1, Spanish banks reported a higher PTB ratio than French, German and Dutch banks, but lower than that of Italian banks. In addition, the PTB ratios of Spanish and Italian banks were above one, while those of the other countries remained below that value (Chart 3.8.a), which continued to limit their incentives for growth. This improvement in the valuations of European and, in particular, Spanish banks has also helped to ease the SRISK indicator (an indicator of systemic risk in the event of stock market corrections) (see Chart A2.3.1.2.1 in Annex 2).

Despite the stock market turbulence in April 2025 (see Chapter 4), the PTB ratios of the major European banks remain high compared to recent periods. On the latest available data, these ratios stand above both the 2024 average and their average level in 2025 Q1.

Price-to-earnings (P/E) ratios for European banks are also robust despite the recent stock market volatility (see Chapter 4). The growth in the P/E ratio that began in 2024 at most European

¹⁶ In July 2024 the European Commission announced that the remaining **Basel III reforms would be incorporated into European legislation** and that these reforms would enter into force in January 2025, with the exception of some provisions on market risk, which would apply from 2026. Subsequently, a **consultation process** was launched on whether to further delay the application of these requirements or to amend them. More recently, the European Commission has proposed that certain liquidity requirements set out in Basel III **not be implemented**.

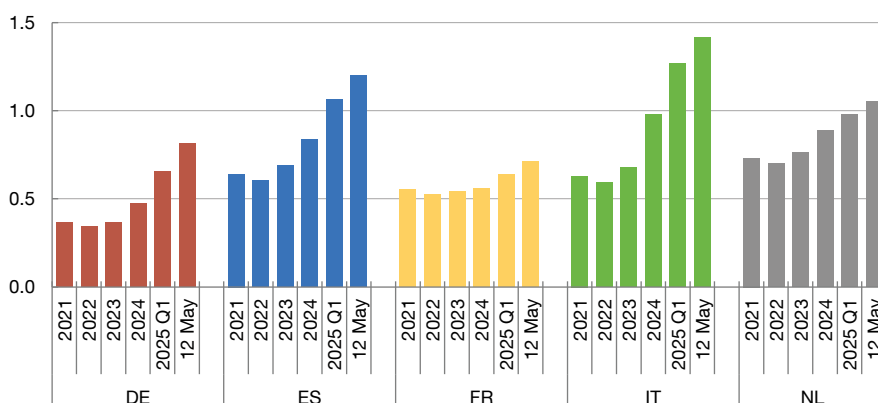
¹⁷ See the **joint letter** sent on 5 February by the governors of the Banco de España, Deutsche Bundesbank, Banque de France and Banca d'Italia to the European Commissioner for Financial Services and the Savings and Investment Union.

¹⁸ The PTB ratio measures the market capitalisation of listed banks relative to their book value. It is calculated by dividing the current share price by the book value per share. A value above 1 indicates that the market is valuing an institution's assets above their book value, thus reflecting confidence in its profitability, while a very low PTB ratio implicitly reflects difficulty in generating a return on capital that matches the cost of capital.

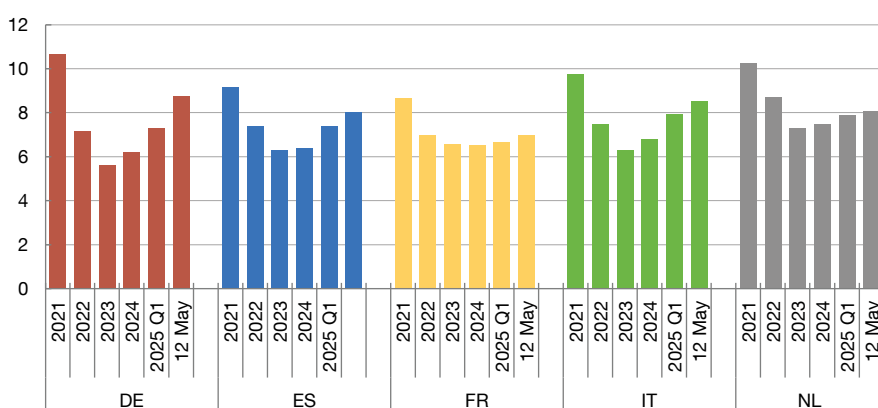
Chart 3.8

Despite the recent financial market turbulence, European banks continue to show high ratios of market capitalisation to book value and earnings compared with previous years

3.8.a European comparison of PTB ratios between 2021 and 2025 (a)



3.8.b European comparison of forward P/E ratios between 2021 and 2025 (a) (b)



SOURCES: Datastream and Banco de España. Latest observation: 12 May 2025.

- a Annual averages for 2021, 2022, 2023, 2024 and 2025 Q1 drawing on daily data, weighted by each bank's market capitalisation. The sample for each country comprises listed banks. Latest observation: 12 May 2025.
- b The 12-month forward P/E ratio is calculated by dividing the current share price by the estimated earnings per share for the next 12 months. Estimated earnings are obtained from investors' forecasts provided by Institutional Brokers' Estimate System (I/B/E/S).

banks strengthened markedly in 2025 Q1 (Chart 3.8.b).¹⁹ The corrections recorded at the beginning of April have not pushed these ratios below their Q1 average levels and, furthermore, they are clearly above their 2024 average level. This suggests that the current improvement in earnings has been reflected in investors' expectations of higher returns over the medium to long term.

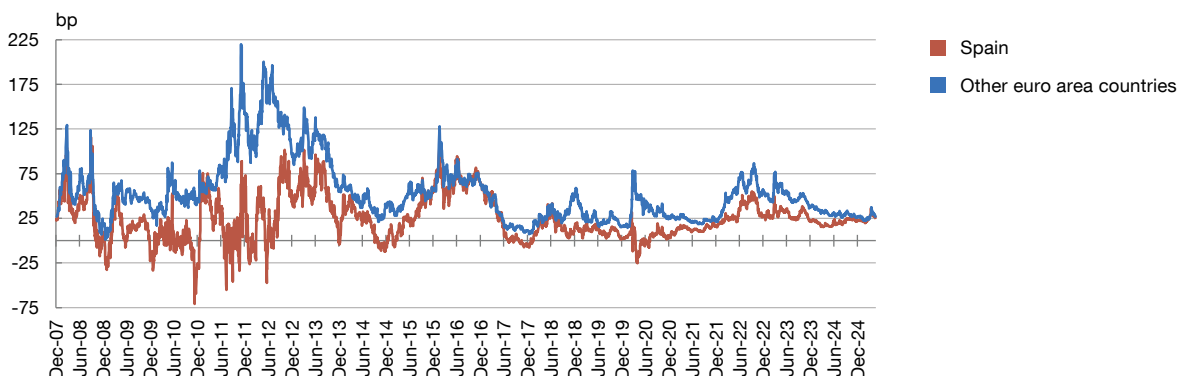
The cost differentials (relative to sovereign CDSs) of credit default swaps (CDSs) on the main Spanish banks are similar to those for their European peers, and have remained

¹⁹ This refers to the forward price-to-earnings (forward P/E) ratio. It is calculated by dividing the current share price by the estimated earnings per share for the next 12 months. Estimated earnings are obtained from investors' forecasts provided by Institutional Brokers' Estimate System (I/B/E/S). A higher forward P/E ratio indicates that investors expect significant growth in the bank's earnings.

Chart 3.9

The cost differentials relative to sovereign CDSs for CDSs on Spanish banks are at levels similar to those for their European peers

3.9.a Difference between the spreads of CDS contracts on the main European banks and those of their respective sovereign CDSs (a) (b)



SOURCES: Bloomberg and Datastream. Latest observation: 12 May 2025.

- a A credit default swap (CDS) is a contract in which one party makes fixed payments for a certain period and the other makes a payment if an underlying asset (such as debt of a specific bank) defaults. Thus, the fixed payment (commonly referred to as the “spread”) represents the market’s estimation of the probability that the underlying asset will default.
- b The chart shows the difference in cost (measured as the spread) between the five-year banking CDS and the corresponding five-year sovereign CDS, both in euro, weighted by each bank’s market value. Banks with sufficiently liquid CDSs are considered. The sample includes Santander and BBVA for Spain and Deutsche Bank, Commerzbank, Crédit Agricole, Société Générale, BNP Paribas, Unicredit (from 23 October 2008) and Banca Monte dei Paschi di Siena for other euro area countries.

stable in recent times.²⁰ In 2024 and early 2025 the cost differentials (measured as the spread) of CDSs on the main Spanish banks relative to sovereign CDSs remained at around 20 bp on average, and experienced a temporary spike in April 2025 following the tariff announcements in the United States. This is moderate by historical standards, standing clearly below the levels reached during 2012 and somewhat below the average value for major European banks (Chart 3.9). Trading volumes for CDSs on the main European banks have increased in 2025 compared with last year. However, they have not exhibited any abnormal patterns since the April market turmoil prompted by the US tariff announcements (see Chapter 4 and Chart A2.3.1.2.2 in Annex 2).

3.1.3 Consolidated balance sheet

Assets

Spanish banks’ consolidated assets grew in 2024 by 3.3%, driven by business with foreign counterparties,²¹ which accounted for 58.6% of total financial assets in 2024. Last year financial assets with foreign counterparties increased by 7.3%, while assets with

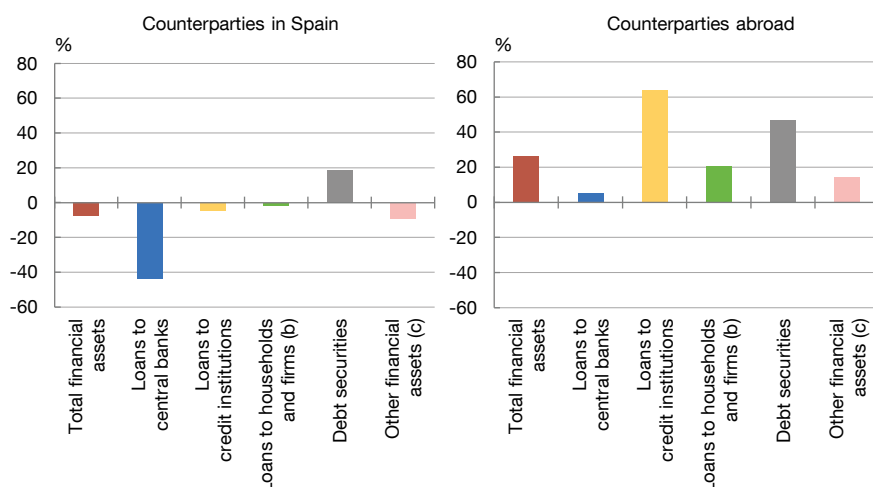
²⁰ A credit default swap is a contract in which one party makes fixed payments for a certain period and the other makes a payment if an underlying asset (such as debt of a specific bank) defaults. Thus, the fixed payment (commonly referred to as the “spread”) represents the market’s estimation of the probability that the underlying asset will default.

²¹ Business abroad is determined based on the counterparties’ residence.

Chart 3.10

Financial assets with foreign counterparties are on a rising trend, contrasting with the cumulative contraction in recent years in financial assets with counterparties in Spain

3.10.a Cumulative growth in financial assets by asset type between December 2021 and December 2024 (a). Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

a Direct counterparties are considered, using the residence criterion to identify them as Spanish or foreign.

b Includes both non-financial and financial corporations other than credit institutions.

c The "Other financial assets" item comprises loans to general government, cash balances, derivatives and holdings of equity instruments issued by other

counterparties in Spain decreased by 1.4%. These developments in 2024 are consistent with recent years' trend of higher relative growth in financial assets with foreign counterparties. For example, since 2021, amid higher interest rates than in previous years, they have grown cumulatively by 26.6%, compared with a decline of 7.8% in assets with Spanish counterparties (Chart 3.10). The available information for 2025 Q1 suggests that Spanish banks' assets have remained on their upward trend so far this year.²²

This higher growth in financial assets with foreign counterparties can be seen across all products. Although domestic debt securities²³ have increased (by 18.6% since 2021), they have done so to a much lesser extent than debt securities with foreign counterparties (47.1% since 2021). Lending to foreign credit institutions has risen even more (by over 64% since 2021). For financial assets with domestic counterparties there was a marked contraction in credit to central banks, in line with the normalisation of monetary policy in the Eurosystem. Despite a less accommodative global monetary environment since 2022, loans to foreign households and firms²⁴ have recorded significant cumulative growth, compared with the sluggish growth in loans to households and firms resident in Spain (Chart 3.10). For more details on the structure of banks'

²² See for example the available information on individual balance sheets to February 2025 (see Table 4.51 of the Banco de España's Statistical Bulletin) and the 2025 Q1 earnings reports published by the main listed banks. The consolidated balance sheet data at end-2025 Q1 will be published as part of the Banco de España's supervisory statistics series in June.

²³ Includes debt securities with various types of debtor counterparties: central banks, public administrations, credit institutions, other financial corporations and non-financial corporations.

²⁴ Includes both non-financial corporations and financial corporations other than credit institutions.

consolidated balance sheets, see Annex 1 and Chart A2.3.1.3.1 in Annex 2. Credit in Spain and with counterparties abroad is analysed in more detail in Section 3.1.4.

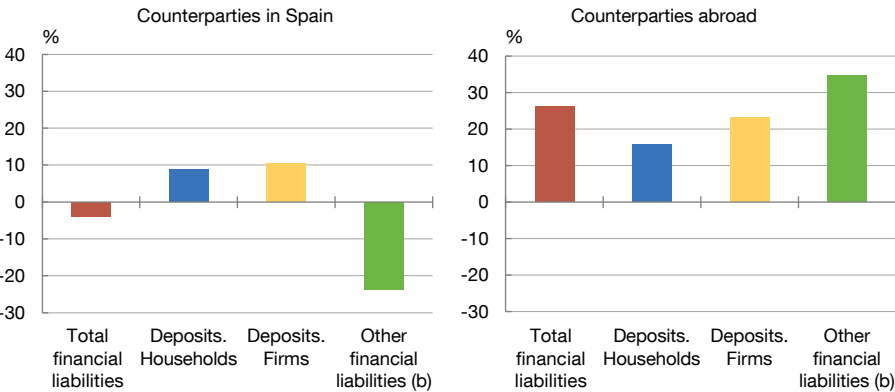
Liabilities

Financial liabilities²⁵ (excluding own funds) grew by 3.2% in 2024, driven by transactions with counterparties both in Spain and abroad. In 2024 the decline in central bank funding (-41.3%) was more than offset by the growth in deposits by households, firms and general government (4.9%) and in funding via debt instruments (4%) and from other credit institutions (2.6%) (see Annex 1). By geographical area, financial liabilities with Spanish counterparties grew by 4.6% in 2024, while those with foreign counterparties increased by 1.7%.²⁶ Looking at a broader time frame, since December 2021 financial liabilities have accumulated a decline of close to 5% in transactions with Spanish counterparties and an increase of over 25% in transactions with foreign counterparties (Chart 3.11), with the latter significantly increasing their share in total funding.

Deposits by households and firms grew in cumulative terms in the period 2021-2024, with a more pronounced rise in those from counterparties resident abroad. In that period liabilities with counterparties resident in Spain grew by close to 10%, while those with foreign

Chart 3.11
Financial liabilities with foreign counterparties have grown robustly in recent years, while there has been a moderate decrease in those with Spanish counterparties despite the growth in deposits by households and firms

3.11.a Cumulative growth in total financial liabilities and deposits by households and firms with Spanish and foreign counterparties between December 2021 and December 2024 (a). Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

- a Direct counterparties are considered, using the residence criterion to identify them as Spanish or foreign.
- b “Other financial liabilities” includes central bank funding, financial sector and general government deposits, debt securities and other interest-bearing items.

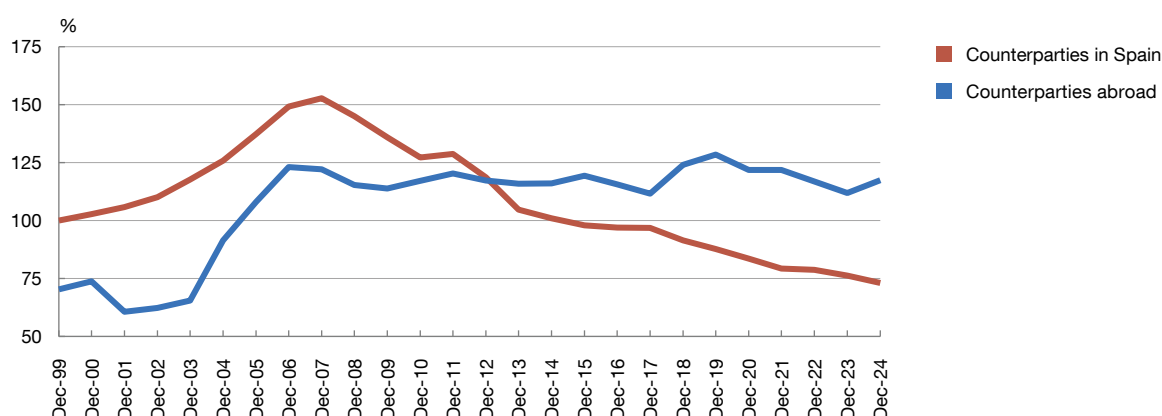
25 Interest-bearing financial liabilities (the subject of this section) are differentiated from equity and other liabilities (e.g. certain kinds of provisions or fiscal liabilities).

26 Financial liabilities are contractual obligations to deliver cash or other financial assets to a third party. These include deposits, bonds issued by the bank, derivatives and short positions in financial instruments, among others.

Chart 3.12

Since the global financial crisis, the loan-to-deposit ratio has declined markedly for the resident private sector in Spain, while holding stable in business with foreign counterparties

3.12.a Private sector loan-to-deposit ratio (a) (b). Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

a The private sector includes households, NFCs, the self-employed (also referred to as sole proprietors) and non-bank financial institutions (e.g. insurance companies). At December 2024 the loan-to-deposit ratio considering only households and firms stood at 75.7% for business in Spain and 122.6% for business abroad.

b Direct counterparties are considered, using the residence criterion to identify them as Spanish or foreign.

counterparties grew by between 15.9% (households) and 23.3% (firms) (Chart 3.11). In December 2024 deposits by households and firms accounted for 68.3% of total financial liabilities in business in Spain and 49.4% in business abroad. In both cases, they represented the main form of funding (see Annex 1 and Chart A2.3.1.3.2 in Annex 2).

Since the global financial crisis, the loan-to-deposit ratio for the private sector in Spain has steadily declined. In December 2024 it stood at 73%, down from more than 150% in 2007. During the global financial crisis the drop in this ratio was mainly driven by falling credit, while the declines in the last five years are essentially attributable to growth in deposits. In business with foreign counterparties the ratio has been relatively stable since 2005, although it grew slightly in 2024 (Chart 3.12).

Bank debt issuance remained strong in 2024 H2, surpassing the volume issued in 2023 H2. Senior unsecured debt²⁷ (eligible for MREL purposes)²⁸ and senior non-preferred (SNP)²⁹ debt

27 Secured debt (including covered bonds) comes with additional collateral, typically a pool of mortgage loans, providing the holder with dual recourse: a claim on the issuing bank itself and a preferential claim against the cover pool. Senior unsecured debt lacks collateral backing, but its senior status grants it highest priority among issuances without additional collateral for repayment in case of issuer bankruptcy.

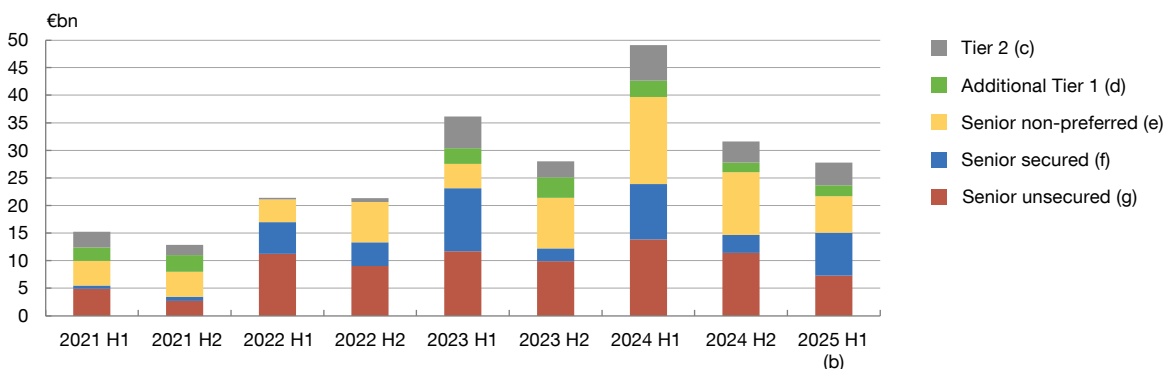
28 The minimum requirement for own funds and eligible liabilities (MREL) is a requirement aimed at ensuring that banks have sufficient own funds and eligible liabilities to support the application of resolution tools and make sure that shareholders and certain creditors are the first to bear losses should the bank fail.

29 Senior non-preferred (SNP) debt is a class of debt whose holders would incur losses in the event of the bank's resolution, ranking below traditional senior debt holders in priority.

Chart 3.13

Debt issuance by Spanish banks remained robust in 2024 H2 and in the initial months of 2025, albeit below the high levels seen in the same period of 2024

3.13.a Half-yearly primary market issuance volume (a)



SOURCES: Dealogic and Banco de España. Latest observation: 12 May 2025.

a Half-yearly cumulative issuance volumes. 2025 H1 includes data for issuances up to the latest observation date.

b Includes issuances up to the latest observation date.

c Subordinated debt instruments eligible as Tier 2 capital are less risky for investors and differ from Additional Tier 1 (AT1) instruments in that they have a maturity date (which must be longer than five years) and the issuer is obliged to pay the stipulated interest. These instruments also have loss-absorption capacity in the event of insolvency.

d AT1-eligible instruments are contingent convertible bonds (CoCos), instruments that can be converted into shares and have the characteristics of both debt and equity. They are perpetual, with the issuer entitled to cancel interest payments at its discretion and redeem the bond after five years. They may be used to recapitalise the bank, for example if its capital falls below a certain level.

e Senior non-preferred debt is a class of debt whose holders would incur losses in the event of the bank's resolution, ranking below traditional senior debt holders in priority.

f Senior secured debt (including covered bonds) comes with additional collateral, typically a pool of mortgage loans (as is the case for Spain's *cédulas hipotecarias*), providing the holder with dual recourse: a claim on the issuing bank itself and a preferential claim against the cover pool.

g Senior unsecured debt is not backed by any specific asset, but its senior status grants it highest priority among unsecured issuances for repayment in case of issuer bankruptcy.

(eligible for MREL and TLAC purposes)³⁰ accounted for most of the issues in 2024 H2. During the initial months of 2025 the volume of secured senior debt increased markedly, bringing it into line with the issuance levels of the other categories of senior debt (Chart 3.13). The strong momentum in new issues, coupled with the maturity structure of bank debt, has allowed banks to keep debt refinancing risks at contained levels (Chart A2.3.1.3.3 in Annex 2).

3.1.4 Credit

Credit developments

After several years in decline, lending to the resident private sector in Spain grew moderately in 2024.³¹ This increase was underpinned by the Spanish economy's favourable

³⁰ Total loss-absorbing capacity (TLAC) is a requirement that must be met by institutions classified as global systemically important banks (G-SIBs). It is similar to and in addition to the MREL, as it seeks to ensure that G-SIBs have sufficient own funds and eligible liabilities that can be used in the event of resolution.

³¹ The resident private sector includes households, non-financial corporations (NFCs), the self-employed (also referred to as sole proprietors) and non-bank financial institutions (e.g. insurance companies).

performance, coupled with the downward trajectory of interest rates. The recovery in the growth of the stock of credit has been supported by lending both to households and to firms and the self-employed. Taken together, these sectors grew by 0.8% in 2024 (Chart 3.14.a), with contributions of 0.6 pp and 0.2 pp, respectively, contrasting with the declines observed in 2023. For more information on the rates of change in credit in Spain over a broader time scale, see Chart A2.3.1.4.1 in Annex 2.

The growth in corporate credit was driven by large firms, while that in lending to households was led by both consumer lending and housing loans (Charts A2.3.1.4.2 and A2.3.1.4.3 in Annex 2). In the case of firms and the self-employed, the stock of credit increased by 0.4% in 2024 thanks to the 3.1% increase in lending to large firms. Meanwhile, lending to SMEs and the self-employed continued to decline (by 2.2%, a much smaller drop than the 8.8% recorded in 2023). In the case of households, credit grew by 1.2% in 2024, contrasting with the decline of 2.4% in 2023, underpinned by the accelerating growth in the consumer segment (7.3% versus 2.1% in 2023) that has been observed for some quarters, and also by growth in lending for house purchase (0.5% versus -3.2% in 2023).³²

The stronger credit growth in 2024 was widespread among banks, although developments remain uneven. The dispersion range among banks of growth in the stock of credit to households, firms and the self-employed in Spain shifted significantly towards more positive values than in 2023 (Chart 3.14.b). Both increases and decreases in the stock of credit were observed within the distribution of banks.

Survey data point to strong credit demand in Spain, stable lending standards and some easing in access conditions. The Bank Lending Survey (BLS) points to an upturn in loan demand from households and firms in Spain in 2024 H2 and 2025 Q1 (data prior to the US tariff policy announcements), especially in loans for house purchase.³³ Demand from households for house purchase also increased in the euro area aggregate, while demand from firms appeared to decline slightly in 2025 Q1 (Chart A2.3.1.4.4 in Annex 2).³⁴ According to the BLS, in 2024 H2 credit standards for both households and firms remained largely stable, with moderate tightening only in housing loans. In the initial months of 2025 there have been no signs either of easing or tightening in any segment.³⁵ Euro area credit standards moved in opposing directions across sectors, softening in lending to households but tightening in business loans

32 In December 2024, loans for house purchase accounted for 80.3% of total lending to households, while consumer and other lending represent 13.6% and 6.1%, respectively. Given that lending for house purchase makes up the bulk of overall loans to households, developments in such lending have a substantial impact on credit to this sector (Chart A2.3.1.4.2 in Annex 2).

33 See [Banco de España press release of 28 January 2025](#) (available only in Spanish) on the results of the 2024 Q4 Banco de España BLS and [Banco de España press release of 15 April 2025](#) (available only in Spanish) on the results of the 2025 Q1 Banco de España BLS.

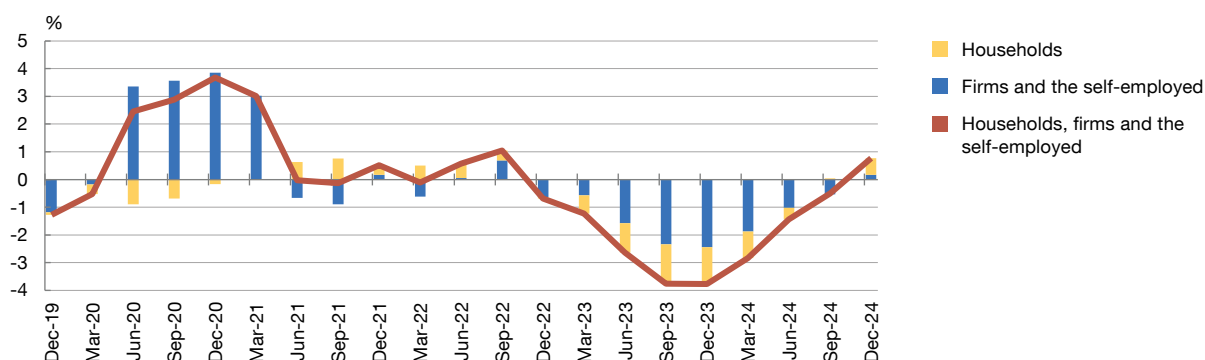
34 See “The euro area bank lending survey – Second quarter of 2025”, ECB.

35 However, the stability indicated by the BLS could be influenced by the tightening bias that has been identified in such surveys, which suggests that credit standards may actually have eased somewhat (P. Köhler-Ulbrich, H. S. Hempell and S. Scopel. (2016). “The euro area bank lending survey”. ECB Occasional Paper Series, 179; W. Bassett and M. Rezende. (2015). “Relation between Levels and Changes in Lending Standards Reported by Banks in the Senior Loan Officer Opinion Survey on Bank “Lending Practices”. FEDS Notes, Board of Governors of the Federal Reserve System).

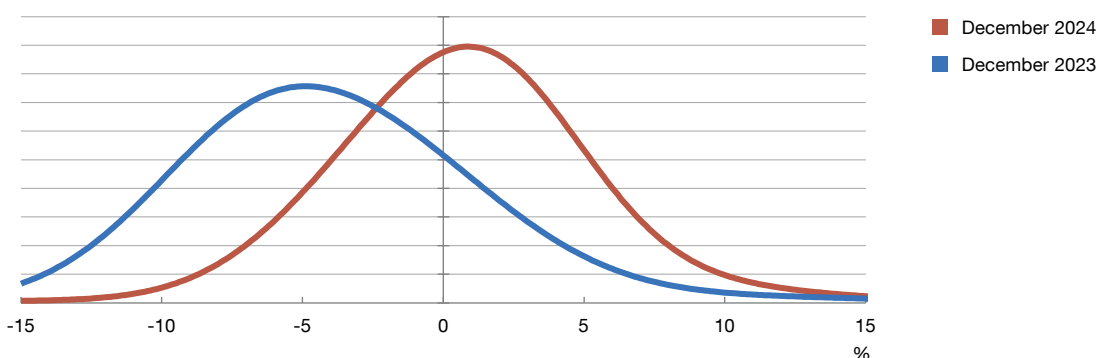
Chart 3.14

The stock of loans to the resident private sector in Spain grew in 2024, driven by lending both to households and to firms and the self-employed (a)

3.14.a Contributions to the year-on-year rate of change in loans to households, firms and the self-employed resident in Spain. Business in Spain. Individual data (b)



3.14.b Distribution by bank of the year-on-year rate of change in loans to households, firms and the self-employed resident in Spain (c). Business in Spain. Individual data (b)



SOURCE: Banco de España. Latest observation: December 2024.

- a The “Firms and the self-employed” category denotes the institutional sectors of NFCs and sole proprietors.
b Lending by deposit institutions’ branches in Spain.
c The chart shows the density function for the year-on-year rate of change in Spanish banks’ lending, weighted by total assets. The density function is estimated using a kernel estimator, which provides a non-parametric estimate, yielding a continuous and smoothed graphical representation of that function.



(Chart A2.3.1.4.5 in Annex 2). Regarding the conditions applied in Spain to loans to both households and firms, the BLS reflects an easing during 2024 H2 and 2025 Q1. This easing appears to have been more pronounced in loans to households for house purchase. The Survey on the Access to Finance of Enterprises (SAFE) indicates an improvement in firms’ perception of the availability of bank financing.³⁶

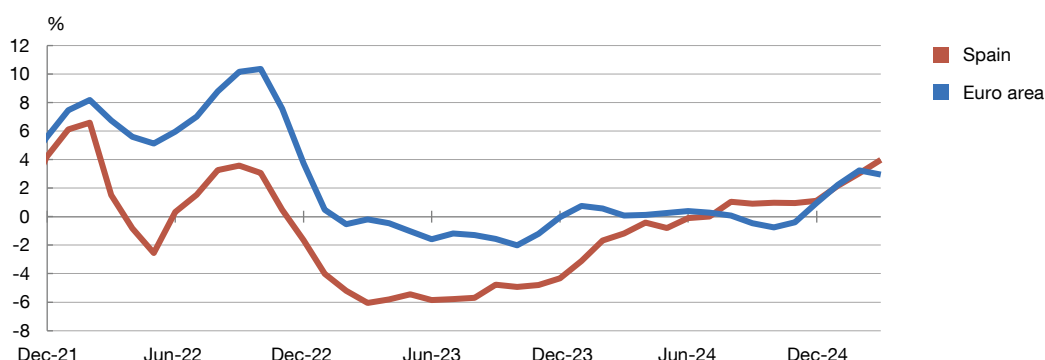
The latest figures available, for the initial months of 2025, indicate continued credit growth. The momentum indicator, which measures recent developments in the stock of loans

³⁶ See Banco de España press release of 13 February 2025 (available only in Spanish) on the 2024 Q4 SAFE results.

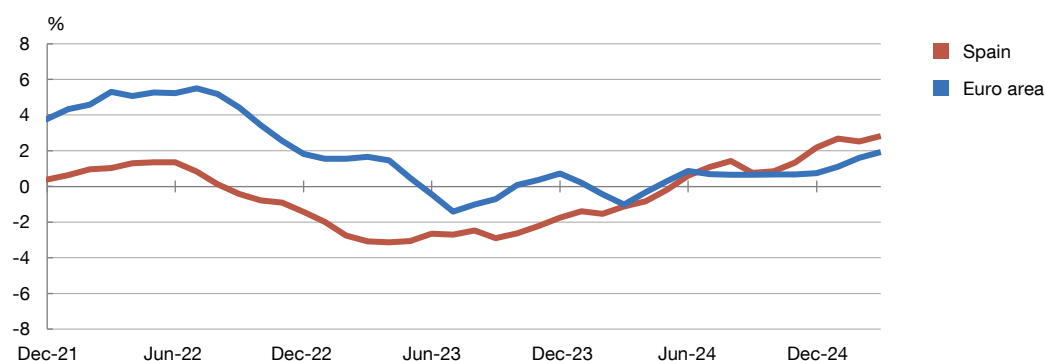
Chart 3.15

Household and business lending in Spain has maintained positive growth rates in the early months of 2025, extending the trend seen since mid-2024 (a)

3.15.a Momentum indicator for the stock of loans to resident firms. Business in Spain. Individual data (b)



3.15.b Momentum indicator for the stock of loans to resident households and the self-employed. Business in Spain. Individual data (b)



SOURCE: ECB. Latest observation: March 2025.

- a "Firms" and "self-employed" denote the institutional sectors of NFCs and sole proprietors, respectively.
 b The data considered are Spanish banks' lending to the resident private sectors in Spain and the euro area.

to households, firms and the self-employed, showed a quarterly increase of 1.5 pp (in annualised terms) in March 2025, consolidating the rising trend since mid-2024.³⁷ In the case of firms (Chart 3.15.a), the annualised indicator stood at 4% in March 2025, 1 pp higher than for the euro area as a whole. In lending to households (Chart 3.15.b) the indicator stood at 2.8% at the same date, 0.9 pp above the euro area average.

In 2024 the growth in total credit with foreign private counterparties outpaced that in business with Spanish private counterparties, but unevenly across regions.³⁸ At

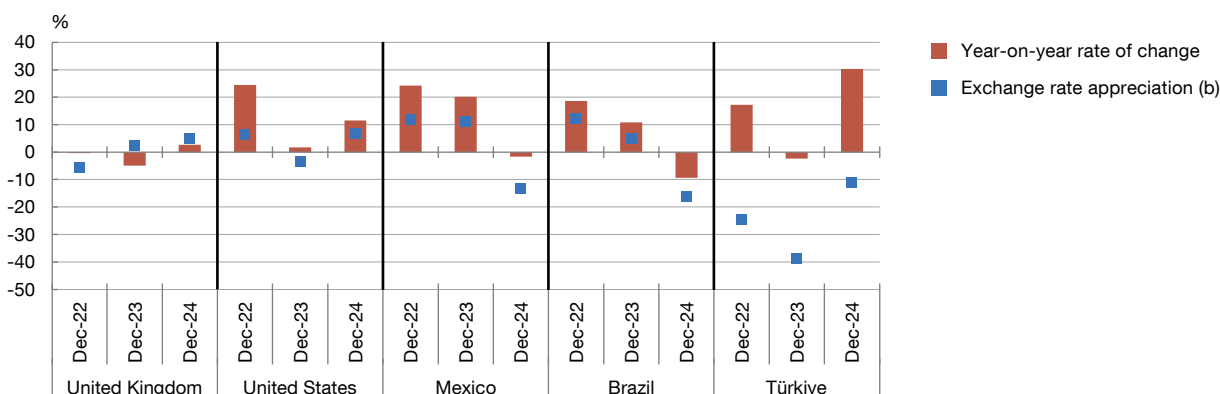
³⁷ The momentum indicator shows the quarter-on-quarter rate of change in the three-month moving average of the seasonally adjusted credit stock. To facilitate a comparison with year-on-year rates of change, the momentum indicator is presented in annualised terms. Annualisation is calculated assuming that the rate of change over the past three months remained unchanged over a 12-month period.

³⁸ The private sector includes households, firms (NFCs), the self-employed (also referred to as sole proprietors) and non-bank financial institutions (e.g. insurance companies). Counterparties are classified as Spanish or foreign based on their residence.

Chart 3.16

In 2024 Spanish banks' lending to foreign households and firms grew unevenly by counterparty country and was influenced by exchange rate developments

3.16.a Year-on-year rate of change in credit to the foreign private sector (a) (expressed in euro) and appreciation of the local currency vis-à-vis the euro. Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

- a The private sector includes households, firms (NFCs), the self-employed (also referred to as sole proprietors) and non-bank financial institutions (e.g. insurance companies). Total credit granted to residents in each of the jurisdictions represented in the chart is considered, irrespective of whether it is local or cross-border business.
- b A positive (negative) value indicates appreciation (depreciation) of the local currency vis-à-vis the euro.

consolidated level, lending by Spanish banks to foreign private counterparties recorded a year-on-year rate of change of 6% in 2024. This was driven by developments in some of the main jurisdictions where Spanish banks operate (Chart 3.16). Growth in the United States reached 11.6%, partly due to the appreciation of the dollar against the euro, while in Türkiye growth exceeded 30% despite the depreciation of its currency. In the United Kingdom, which accounts for more than 25% of total business abroad, growth was more subdued, while Mexico and Brazil saw declines, partly because their currencies depreciated against the euro.

Credit quality

In credit to the resident private sector in Spain, both non-performing loans (NPLs) and stage 2 loans declined in 2024. NPLs to this sector were down by 5.6% in 2024, accentuating the falls observed in 2023. However, in the case of households, NPLs were up somewhat in consumer credit during 2024 (3.9%). For their part, stage 2³⁹ loans decreased significantly, by 15.6% year-on-year. This improvement was broad-based across sectors of activity and

³⁹ Pursuant to Circular 4/2017, a loan is classified as a stage 2 exposure when credit risk has increased significantly since initial recognition, but no event of default has occurred.

loan purposes, consistent with the healthy economic momentum and the decline in the debt-to-income ratio (see Chapter 2).

NPL and stage 2 ratios in lending to the resident private sector also declined in 2024.

This was influenced both by the aforementioned reduction in non-performing and stage 2 loans and by the increase in the total stock of loans to this sector. For overall loans to the resident private sector, the NPL ratio stood at 3.2% at end-2024 (down 0.2 pp on 2023) and the stage 2 ratio stood at 6.4% (down 1.2 pp on 2023). The declines were more pronounced in the stage 2 ratio than in the NPL ratio, for both loans to households and loans to firms and the self-employed (Chart 3.17.a and 3.17.b). According to the latest data available (March 2025), the NPL ratio for the resident private sector has continued its downward trend, falling to 3.1%.

With respect to loans backed by ICO COVID-19 guarantees,⁴⁰ in 2024 there was a notable decline in those classified as stage 2. These were down by almost 37% year-on-year, contrasting with a 7.5% increase in NPLs. Similarly, the stage 2 ratio for these loans fell by 2 pp in 2024 to 20.9%, while the NPL ratio rose to 21.5% in December, up 7.6 pp on a year earlier. As this is a closed portfolio (no new loans will be granted, but repayments will continue), the decrease in the denominator mechanically exerts upward pressure on these ratios.⁴¹ Relative to the peak level of loans backed by ICO COVID-19 guarantees observed since 2020, the NPLs at March 2025 would amount to around 9% and the stage 2 loans at that date would represent a somewhat smaller share. In addition, loans backed by ICO COVID-19 guarantees continue to represent a significant, albeit declining, proportion⁴² of the NPL and stage 2 ratios for overall corporate lending (Chart 3.17.b), and therefore continued monitoring is warranted.

The flash floods that hit Spain in late October 2024 have not significantly disrupted credit quality trends at the national level, although they do have systemic implications at the local level. The disaster, which struck the Valencia region particularly hard, resulted in a tragic loss of life and devastating destruction in the affected municipalities. Because the catastrophe was localised, its impact on credit risk at the national level remains limited. For instance, loans to households and firms with ties to the affected municipalities represent approximately 2% of the national total. However, such credit represented more than 40% of the stock of lending to these segments in the Valencia region at September 2024, prior to the disaster, and roughly 50% of dwellings and firms linked to loans in the affected municipalities

⁴⁰ Royal Decree-Laws 8/2020, 25/2020 and 34/2020 enacted and regulated the State guarantee facilities for firms and the self-employed. These facilities aimed to address the liquidity needs generated by the restrictions on activity and movement imposed to combat the COVID-19 pandemic. In mid-2021 the amount of the loans guaranteed by these facilities exceeded €90 billion.

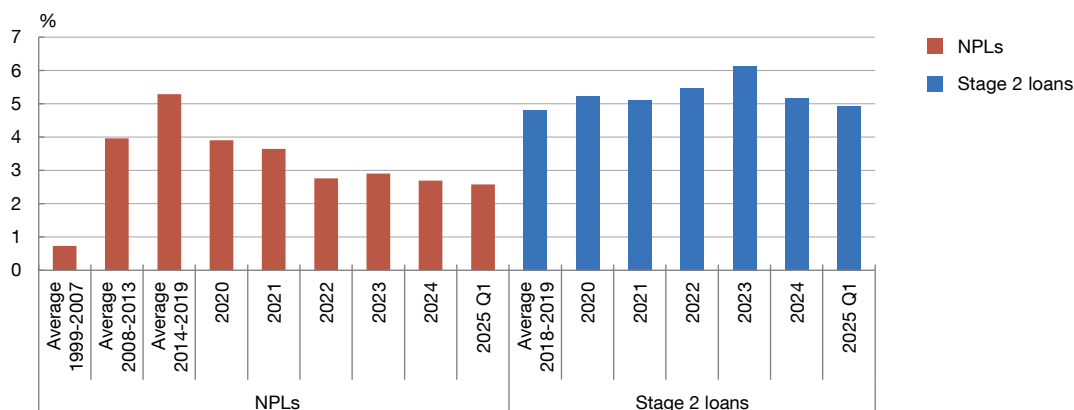
⁴¹ Had the amount of these loans (the ratio's denominator) remained constant at its December 2023 level, NPLs as a share the total would have increased by just 1 pp to 14.9%. Under the same assumption, the stage 2 loan ratio would have declined by 8.4 pp to 14.5%.

⁴² In December 2024 NPLs backed by ICO COVID-19 guarantees accounted for just over 40% of total NPLs to NFCs and sole proprietors, thus contributing 1.8 pp to the total NPL ratio of for these sectors (4.3%). As for stage 2 loans, those backed by ICO COVID-19 guarantees represented around 21% of total stage 2 loans with corporate counterparties, meaning a contribution of 1.8 pp to the total stage 2 ratio for these sectors (8.5%).

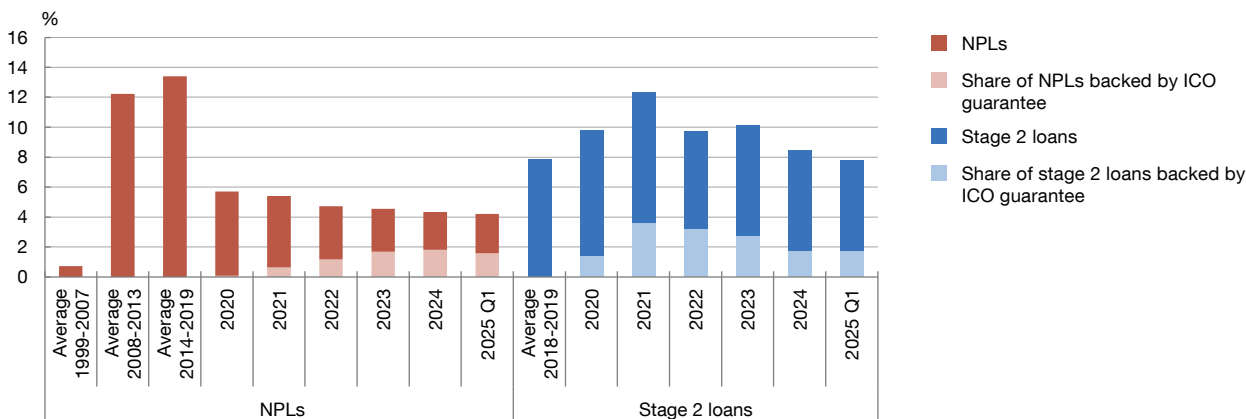
Chart 3.17

NPL and stage 2 ratios declined in 2024 for loans to both households and firms, with some cross-bank heterogeneity

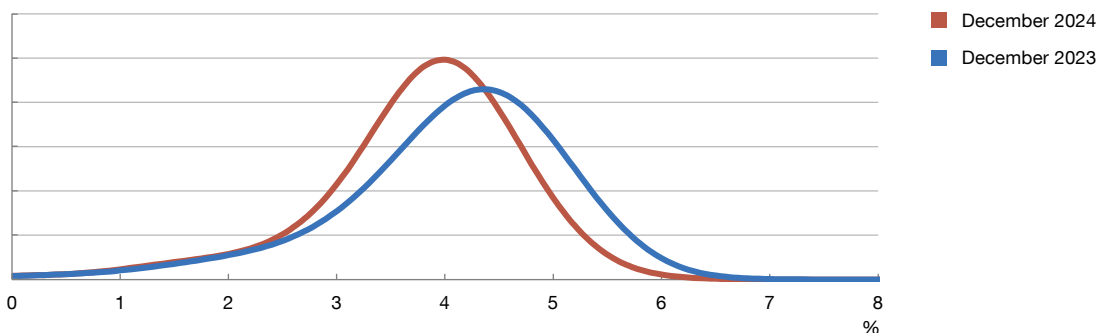
3.17.a NPLs and stage 2 loans as a share of loans to households resident in Spain. December of each year and 2025 Q1. Business in Spain. Individual data (a)



3.17.b NPLs and stage 2 loans as a share of loans to firms and the self-employed resident in Spain. December of each year and 2025 Q1. Business in Spain. Individual data (a) (b)



3.17.c Distribution by bank of the NPL ratio for households, firms and the self-employed resident in Spain. Business in Spain. Individual data (a) (c)



SOURCE: Banco de España. Latest observation: March 2025 (panels a and b) and December 2024 (panel c).

a Lending by deposit institutions' branches in Spain.

b The figures for firms and the self-employed correspond to data reported for NFCs and sole proprietors. Lighter colours show the contribution to the ratio of ICO-backed loans to NFCs and sole proprietors.

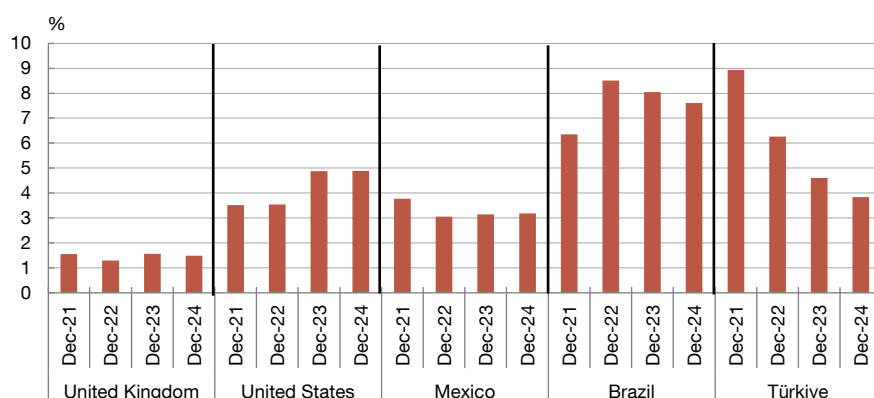
c The chart shows the density function of the troubled loans ratio for Spanish deposit institutions, weighted by total assets. The density function is approximated using a kernel estimator, which enables non-parametric estimation and provides a continuous, smoothed graphic representation of the function.



Chart 3.18

The credit quality of lending to foreign households and firms held stable in 2024

3.18.a NPL ratio for Spanish bank lending to the resident private sector, by country. Consolidated data (a)



SOURCE: Banco de España. Latest observation: December 2024.

a The resident private sector includes households, firms (NFCs), the self-employed (also referred to as sole proprietors) and non-bank financial institutions (e.g. insurance companies). Total credit granted to residents in each of the jurisdictions represented in the chart is considered, irrespective of whether it is local or cross-border business.

were located in or nearby the flooded areas.⁴³ On data available to February 2025, there was only a modest increase in NPLs at local level from December 2024, along with a temporary uptick in loans classified as stage 2. The broad public support measures deployed and sustained lending to the affected areas, partly backed by ICO guarantees and moratorium schemes, could help to contain any further adverse effects.⁴⁴ However, past experience with natural disasters suggest that impacts on credit quality may emerge with a delay, and therefore continued monitoring is required.⁴⁵

The distribution of NPL ratios across banks shifted towards lower levels in 2024. At the same time, the heterogeneity has diminished somewhat, resulting in a rather more concentrated pattern around a lower average (Chart 3.17.c). These developments show that the improvement in credit quality has been broad-based.

The credit quality of loans to foreign households and firms remained stable at 2024. NPL ratios for this type of counterparty have held close to 2023 levels in most material countries for Spanish banks, with additional declines observed in Türkiye and Brazil (Chart 3.18).

⁴³ The proportion of homes and firms linked to loans that are situated in or close to (within 500 metres) the flooded areas is estimated using mapping data from the Copernicus database and the Banco de España Central Credit Register.

⁴⁴ For an overview of the measures adopted by the Council of Ministers, see [La Moncloa](#) (2025) (in Spanish). For more information on the State measures and those adopted by the Valencia regional government, see the “[Afectados por la DANA](#)” section of the latter’s website (in Spanish).

⁴⁵ For a detailed analysis of the effects of the October 2024 flash floods on lending to households and firms, see Pérez Montes, C., García Villasur, J., Gutiérrez de Rozas, L., Jiménez, G., Lavín, N., Matyunina, A. and R. Vegas (2025), *El impacto de la DANA de octubre de 2024 desde una perspectiva de estabilidad financiera*. Revista de Estabilidad Financiera - Banco de España. Forthcoming.

3.1.5 Financing conditions and liquidity

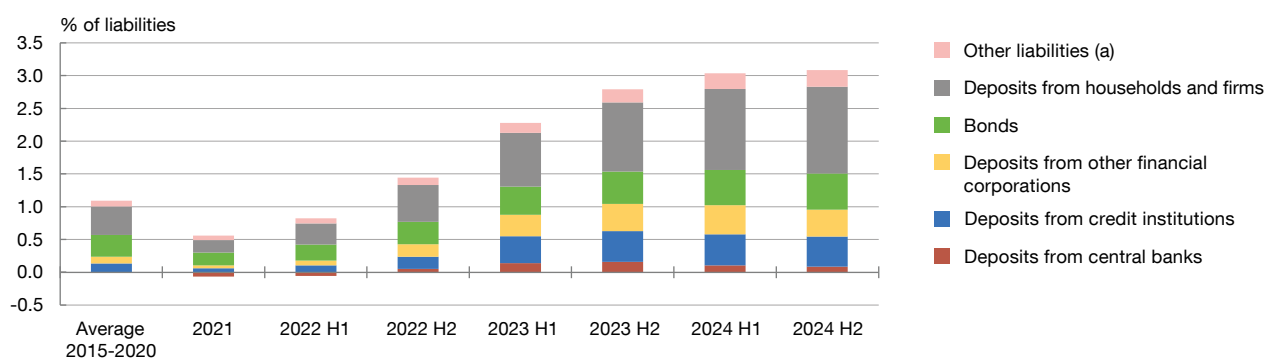
Cost of liabilities

The average cost of bank liabilities was steady at around 3.1% in 2024 H2, amid declining reference interest rates.⁴⁶ Relative to 2024 H1, the contributions of the various liability items to the average cost of liabilities held relatively stable. The contribution of deposits by households and firms (Chart 3.19.a) was notable due to their high volume (Annex 1 and Chart A2.3.1.3.2 in Annex 2), despite unit costs remaining contained, as discussed below. The stability in the average cost of liabilities, coupled with the decline in reference rates during this period (in the case of the 12-month EURIBOR the reduction reached 79 bp) has closed the positive spread that Spanish banks had maintained in recent years (Chart 3.19.b). This spread owed largely to their retail funding model, which was conducive to a limited pass-through of

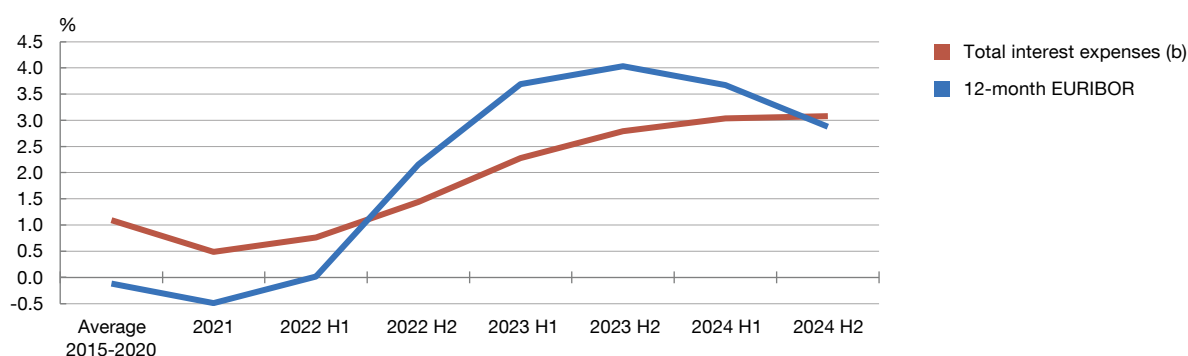
Chart 3.19

Against a background of declining reference interest rates, the average cost of liabilities held stable in 2024 H2

3.19.a Interest expenses on liabilities. Consolidated data



3.19.b Interest expenses on liabilities and 12-month EURIBOR. Consolidated data



SOURCE: Banco de España. Latest observation: December 2024.

- a** Includes interest paid on general government deposits and other interest expenses associated with other financial liabilities and other liabilities.
b Expressed as a percentage of total liabilities. Excludes expenses associated with interest rate hedge derivatives.



⁴⁶ For these purposes, the average cost of liabilities is defined as interest expenses (net of income) associated with all liabilities, in annualised terms and divided by average total liabilities.

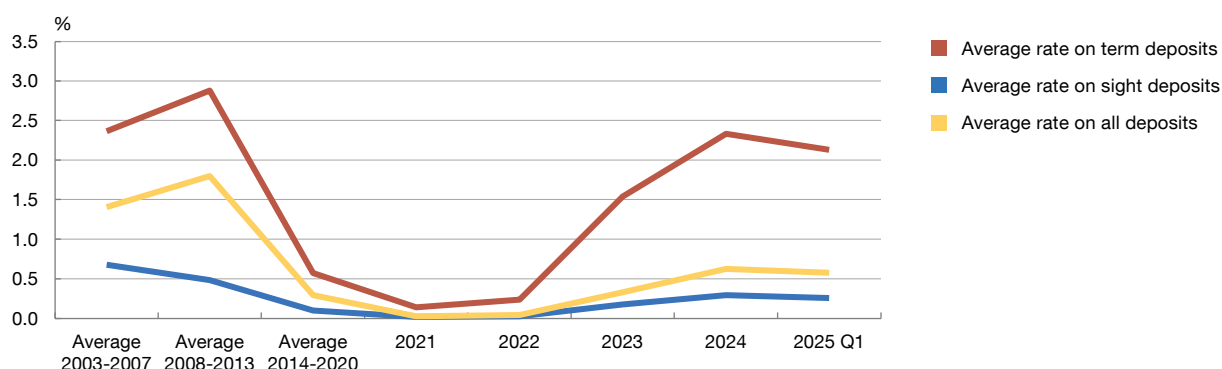
policy rate hikes to the cost of funding, but may now also contribute to a slower adjustment in the short term as policy rates decline. In any event, earnings reports from the main listed banks indicate that the share of interest expenses in liabilities declined year-on-year during 2025 Q1, and can be expected to shrink further over the rest of the year (Table A2.3.1.1.2 in Annex 2).

At consolidated level, the average cost of deposits by households and firms increased slightly in 2024 H2. This growth partly owed to the shift from sight deposits to longer-term maturities, with the latter accounting for 24% of the total at end-2024 (up 1.6 pp on December 2023). Thus, the average cost of deposits by households and firms reached 2.3% in 2024 H2, up 0.1 pp on six months earlier. The inertia linked to the cost of these deposits might explain why the reduction in policy rates in most jurisdictions where the banks operate has not yet been reflected in the average cost of liabilities. However, bank deposits are a substantially cheaper source of funding than other alternatives and continue to help keep the average cost of liabilities contained.

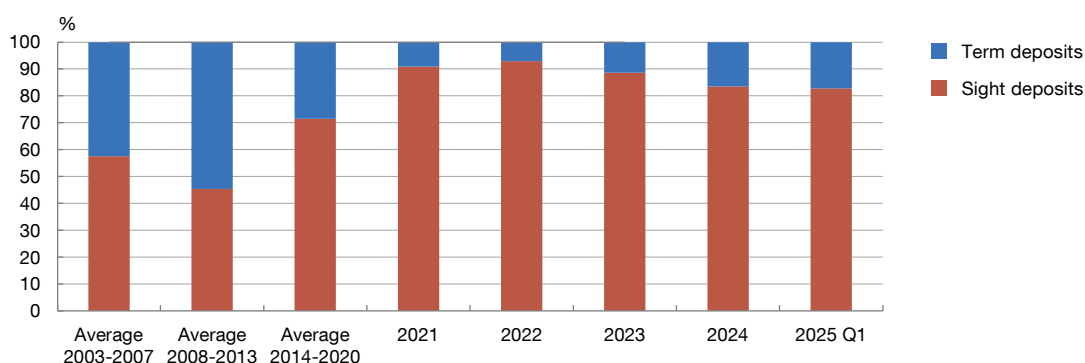
Chart 3.20

In business in Spain, the predominance of sight deposits has continued to contain the average cost of deposits

3.20.a Average rates for household and NFC deposits. Business in Spain. Individual data (a) (b)



3.20.b Share of sight and time deposits of the non-financial private sector. Business in Spain. Individual data (a)



SOURCE: Banco de España. Latest observation: March 2025.

a Transactions carried out by deposit institutions' branches in Spain are considered.

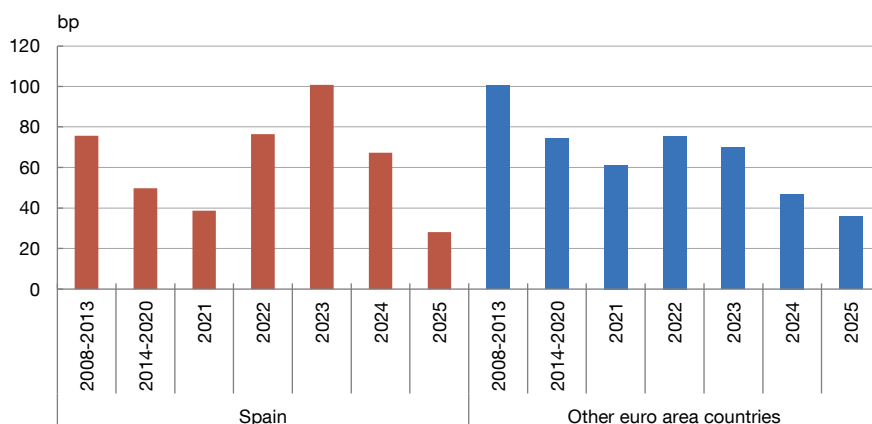
b The interest rate in each period is the average of monthly interest rates. Monthly interest rates, in turn, are calculated as the average of the sight and term deposit rates weighted by the respective deposit volumes.



Chart 3.21

The spread between the issuance cost of senior unsecured debt and sovereign bonds declined in 2024 and in 2025 Q1, for both Spanish and other European banks

3.21.a Comparison of the spread between sovereign bonds and senior unsecured debt instruments issued by major Spanish and other European banks (a)



SOURCES: CSDB, Dealogic and Eikon Refinitiv. Latest observation: March 2025.

a The spread between the cost of euro-denominated fixed rate issues and the yield on sovereign bonds at the same term is shown, weighted by the volume of bonds issued by banks at different terms. Euro-denominated fixed rate issues by major credit institutions listed in Spain and Germany, France, Italy and the Netherlands are considered.

In business in Spain,⁴⁷ the average remuneration of households' and firms' deposits remained low in 2024 (0.6%), below that at consolidated level (2.2%). In 2024 the average remuneration of term deposits reached 2.4% in Spain, a level close to that observed in comparable past episodes of reference interest rate hikes. However, these deposits still account for a small fraction of all households' and firms' deposits, limiting their impact on the average cost of such liabilities (Chart 3.20.a). In particular, the share of term deposits stood at 16.9% at December 2024, 10.3 pp more than at the beginning of the monetary tightening, but still far from average historical values. The latest available data show that the average remuneration of deposits began to decrease in 2025 Q1 and now stands below the 2024 average (Chart 3.20.b).

The average cost of the stock of bank debt issuances increased slightly in 2024 H2. As older debt issued at lower interest rates matured and was replaced by new issuances in a setting of still high interest rates, the average cost of the stock of debt issued by Spanish banks rose to 4.3% in 2024 H2, 11 bp above the cost observed six months earlier.

In new issues of senior unsecured debt during 2024 and 2025 Q1, the spread between issuance costs and equivalent-maturity sovereign debt narrowed across the board at major European banks. In 2024 as a whole this spread was 67 bp for the main Spanish institutions, 34 bp lower than that observed in 2023. Among the other major European institutions, the spread declined by 23 bp, with the average spread standing at 47 bp (Chart 3.21). These spreads have narrowed even further in 2025 Q1, particularly in the case of

⁴⁷ Considering transactions carried out by deposit institutions' branches in Spain.

Spanish institutions. This downward trend was also observed for senior non-preferred debt (SNP) issuances (Chart A2.3.1.5.1 in Annex 2), which, together with senior unsecured issuances, represent the bulk of new issuance in recent years. Considering a longer time horizon, the spreads at Spanish and other European institutions are currently at record-low levels since the global financial crisis.

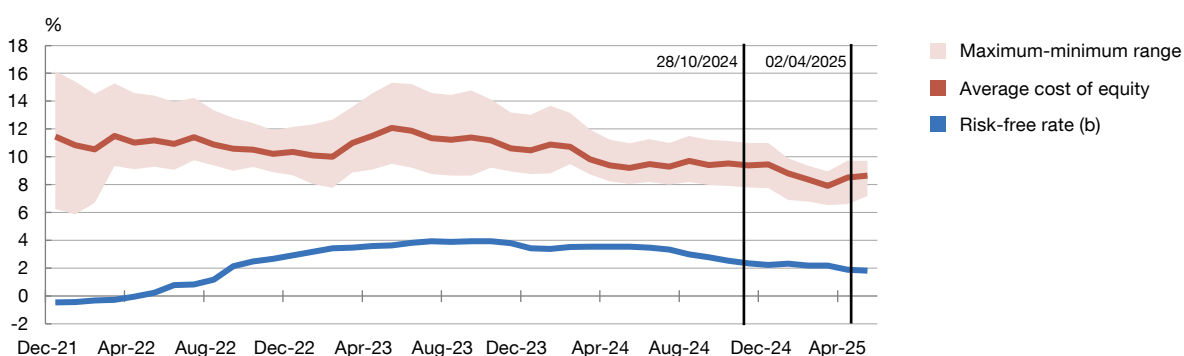
Cost of equity

The cost of equity (COE) remained stable during 2024 H2, dropped in the early months of 2025 and rebounded slightly in April. Spanish banks' COE has decreased by around 0.8 pp since the publication of the last Financial Stability Report, to between 6.7% and 9.8%. Most of the fall took place between January and March 2025, with a slight pick-up of around 0.7 pp in April following the tariff announcement in the United States. The current level is moderate by historical standards and lower than that observed in December 2023 (Chart 3.22).⁴⁸ The range of COE estimates is clearly below the Spanish banking system's ROE (14.1% in 2024, see Section 3.1.1). This drop in the COE contributes to containing the Spanish banking sector's aggregate funding cost.

Chart 3.22

Despite a slight uptick in April, the cost of equity declined moderately in the opening months of 2025, helping to contain aggregate financing costs in the Spanish banking sector

3.22.a Cost of equity of the main Spanish listed banks (a)



SOURCES: Banco de España, Refinitiv Eikon, Datastream and Consensus Economics. 28/10/2024 is the cut-off date of the latest Financial Stability Report; 02/04/2025 is the date when the tariff war escalated. Latest observation: 12 May 2025.

- a The average and maximum-minimum range of the cost of equity are based on four dividend discount models: Ohlson and Juettner-Nauroth (2005), Ohlson and Juettner-Nauroth (2005) simplified, Fuller-Hsia (1984) and Altavilla et al. (2021). See L. Fernández Lafuerza and M. Melnychuk. (2024). "Revisiting the estimation of the cost of equity of euro area banks". *Financial Stability Review* - Banco de España, 46, pp. 25-46.
- b The 1-year overnight index swap (OIS) in euro is used as the risk-free rate.

⁴⁸ The COE is the return investors demand to buy a firm's shares. It is unobservable and its estimation is subject to significant uncertainty. The values presented here are the average value and the minimum-maximum range of four dividend discount models, calculated as the weighted average estimate for the main Spanish listed banks. See Luis Fernández Lafuerza and Mariya Melnychuk. (2024). "Revisiting the estimation of the cost of equity of euro area banks" *Financial Stability Review* - Banco de España, 46, pp. 24-41.

Spanish institutions' liquidity and net stable funding ratios remain at comfortable levels. In December 2024 the liquidity coverage ratio (LCR) of the main Spanish banks stood at 167.9%, 10.5 pp lower than a year earlier, but well above the regulatory minimum required (100%) and also above the average LCR of the main European banking institutions (163.4% at December 2024). In March 2025 (the latest data available), this ratio declined slightly to 161%. The net stable funding ratio (NSFR) – which measures banks' longer-term financing capacity – rose slightly, to 132.9% in 2024 (from 131.2% six months earlier), thus increasing the headroom over the required minimum threshold of 100% and over the average ratio for the main European banks (127.1% in December 2024) (Chart 3.23.a). In 2025 Q1 this ratio increased slightly to 133.3%.

Spanish banks hold liquid assets and stable funding, in the various significant currencies with which they operate, above potential funding needs. On the available information to March 2025, LCRs, both in euro and in other significant currencies, have consistently remained above 100%. The NSFR has also remained above 100% over time in the various currencies, particularly euro and US dollars.

Risk-taking in terms of dollar-denominated funding is greater in other European banking systems than in Spain. According to a comparative study conducted by the EBA using data for December 2023, Spanish banks had an NSFR in US dollars of 116%, compared to levels below 100% in France, Italy, the Netherlands and Germany.⁴⁹ These last two countries had NSFRs below 80%. In the EU as a whole, NSFRs for positions in euro are generally higher than for positions in US dollars (Chart 3.23.b). According to this study, at end-2023 66% of EU/EEA banks' available stable funding was denominated in euro, 20% in US dollars and 3% in pound sterling, with no other significant currency exceeding 2.5%. In the case of Spanish banks, 69.3% of stable funding at that date was denominated in euro and the rest in foreign currencies, the main ones being the pound sterling, the US dollar, the Mexican peso, the Brazilian real, the Chilean peso and the Turkish lira. None of these currencies accounted for more than 11% of Spanish banks' total stable funding. This structure by currency of Spanish banks' stable funding has remained largely unchanged to March 2025 (the latest data available).

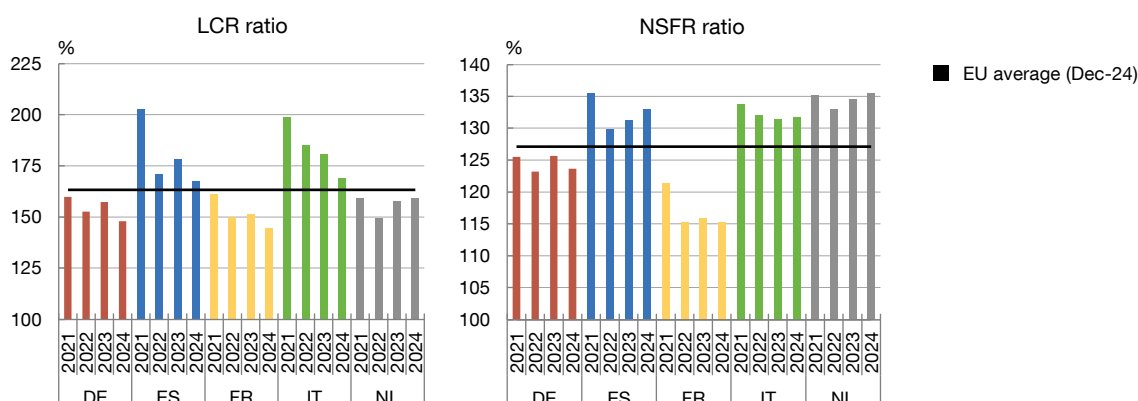
From a financial stability perspective, the monitoring of the aggregate level of liquidity needs to be supplemented by a more granular analysis that also considers its interaction with risks to solvency. Box 3.2 presents the Banco de España's latest analytical developments on liquidity risk in the field of financial stability. First it studies the distribution over time and across currencies of the impacts of liquidity outflow scenarios. It also analyses the extent to which selling liquid assets or pledging them to the central bank during a liquidity crisis can lead to solvency pressures.

⁴⁹ See EBA. (2025). "EBA report – Analysis on EU/EEA banks funding structure and their dependence on asset and liability exposures in foreign currency".

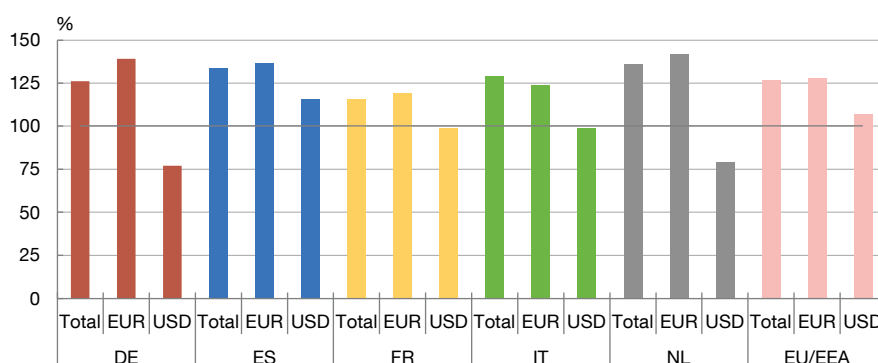
Gráfico 3.23

Spanish banks' liquidity and stable funding ratios remained at comfortable levels in aggregate terms and by currency, and generally stood above those of the main European banking sectors

3.23.a European comparison of the LCR and NSFR ratios between 2021 and 2024. Consolidated data (a)



3.23.b European comparison of the NSFR ratio, breakdown by currency. December 2023. Consolidated data (b)



SOURCE: European Banking Authority. Latest observation: December 2024 (panel a) and December 2023 (panel b).

- a** Data from a sample of the main banks of each country. The minimum regulatory requirement for these ratios at consolidated level is 100%.
b Data on all the banks of each country.



3.2 Non-bank financial sector

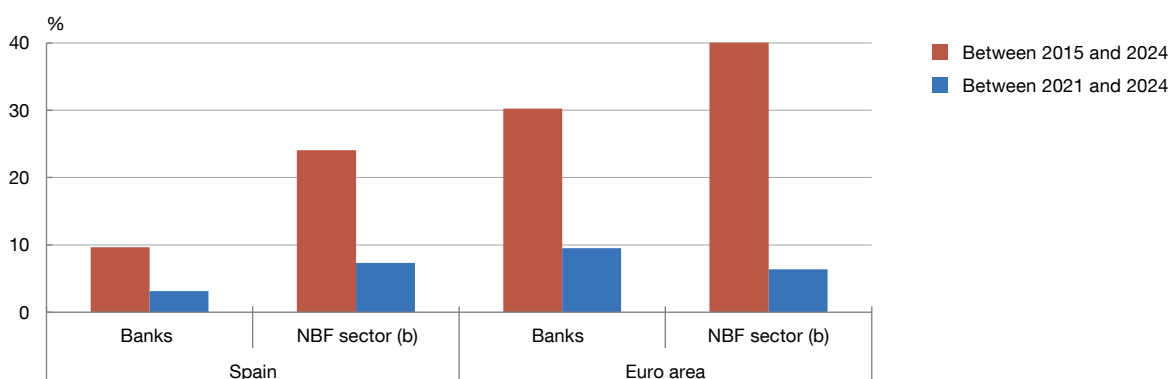
Overall non-bank financial sector developments

Over the last decade, the non-bank financial (NBF) sector has grown more than the banking sector, both in Spain and, especially, in the euro area as a whole. More recently, the NBF sector's total assets have also grown in both Spain and the euro area (by 7.4% and 6.4%, respectively) since end-2021 (Chart 3.24). Meanwhile, since 2021, the size of the banking sector has increased more moderately in Spain (by 3.1%) than in the euro area (by 9.5%). At end-2024 Q4 the NBF sector accounted for 33.8% of the Spanish financial system's total assets, 26 pp below the equivalent figure for the euro area (59.9%) (Chart A2.3.2.1 in Annex 2). In general, NBF sector growth has been spearheaded by investment funds, whose total assets increased in Spain and the euro area by 23% and 11.6%, respectively, from end-2021. These

Chart 3.24

Over the last decade, the non-bank financial sector has grown more than the banking sector, both in Spain and, particularly, in the euro area as a whole

3.24.a Total asset growth in the banking and non-bank financial sectors in Spain and the euro area. Non-consolidated data (a)



SOURCES: Banco de España and ECB. Latest observation: December 2024.

- a In 2024 Q4 total non-consolidated assets of banks and the non-bank financial (NBF) sector in Spain amounted to €3,093 billion and €1,579 billion, respectively. The corresponding values for the euro area as a whole were €38,559 billion and €57,498 billion, respectively.
- b The NBF sector includes money market funds, non-monetary investment funds, insurance companies, pension funds and other non-bank financial intermediaries. Other non-bank financial intermediaries include specialised lending institutions (SLIs), venture capital companies, securities dealer companies, 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.

trends are similar to those observed at the global level.⁵⁰ Chart A2.3.2.2 in Annex 2 provides more information about growth by type of non-bank financial intermediary for both Spain and the euro area as a whole.

Investment funds

The total assets of Spanish investment funds increased notably in 2024. Specifically, between 2023 Q4 and 2024 Q4, the total assets of both monetary and non-monetary investment funds domiciled in Spain increased by 16.3%, continuing the upward trend already observed in 2023.

Over 2024, among investment funds domiciled in Spain, the weight of equities continued to decline in favour of fixed income, albeit at a slower pace than in the previous year.⁵¹ Thus, the share of equity holdings in total assets decreased by 1.1 pp year-on-year to December 2024, compared with a 3.6 pp drop in the same period a year earlier. The share of fixed-income holdings grew, but at a slower pace (0.1 pp versus 5.3 pp in 2023).⁵² The share of other assets also increased slightly. Thus, in 2024 Q4 fixed-income and equity securities

⁵⁰ See the Financial Stability Board's December 2024 *Global Monitoring Report on Non-Bank Financial Intermediation* and Chapter 1 of the IMF's October 2024 Global Financial Stability Report.

⁵¹ Equities include listed and unlisted shares, other equity and other investment fund shares or units.

⁵² Fixed-income securities include short and long-term debt securities.

holdings and other investments accounted for 46.8%, 43.7% and 9.5%, respectively, of the total assets of investment funds domiciled in Spain.

The growth of fixed-income investments in 2024 has been uneven by issuing sector.

While in 2023 the increase in the share of fixed income was spearheaded by the growth in government debt holdings, in 2024 the main growth factor was the increase in holdings of securities issued by banks (1.5 pp) and non-financial corporations (NFCs) (1.0 pp), with the share of government debt declining (-3.1 pp).

This slowdown in the rebalancing of investment fund portfolios towards debt securities coincides with recent downward movements in the remuneration of these instruments.

In particular, following the strong growth after mid-2022, the remuneration of debt securities stabilised towards the end of 2023 and started to decline from mid-2024, reflecting changes in monetary policy interest rates.

Investment funds may have to face valuation adjustments in both fixed income and equity assets. This risk for the sector arises from the compressed risk premia in both the fixed income and, particularly, the equity markets (Chapter 4) and the high overall risk level in the market (Chapter 5). From the analysis in Chapter 4 it can be inferred that the corrections will be uneven across asset classes, with US equities and high-yield US and European corporate bonds facing greater risk. These corrections could, in turn, lead to asset sales in both segments. Based on the information available to date, the sector appears to have absorbed in an orderly manner the impact of the April financial market turbulence, and these risk scenarios have not materialised.

Open-ended investment funds⁵³ domiciled in Spain have lower leverage than those domiciled in the EU as a whole.⁵⁴ According to the latest available data, in 2023 this metric stood at 1.13 for Spanish open-ended funds, with the EU total standing at 1.44.⁵⁵ Leverage was lower for US open-ended investment funds (1.08 in 2023).

Spanish fixed-income open-ended investment funds and mixed open-ended funds are exposed to liquidity risk at a level comparable to that of their global peers. In particular, in the case of fixed-income open-ended funds, the median of the Spanish distribution of the liquidity indicator stood at 1.958 in 2023, 0.77% above the median of the global distribution (1.943) (Chart 3.25).⁵⁶ This difference was only slightly bigger (0.98%) in the case of mixed

53 Open-ended investment funds can be redeemed at sight and, except where exceptions have been established, investors can realise their ownership interest at any time.

54 The leverage measure used is defined as the sum of the entire portfolio plus the notional value of all derivatives contracts, relative to the net asset value of the investment fund, i.e. to the total value of its assets less its liabilities.

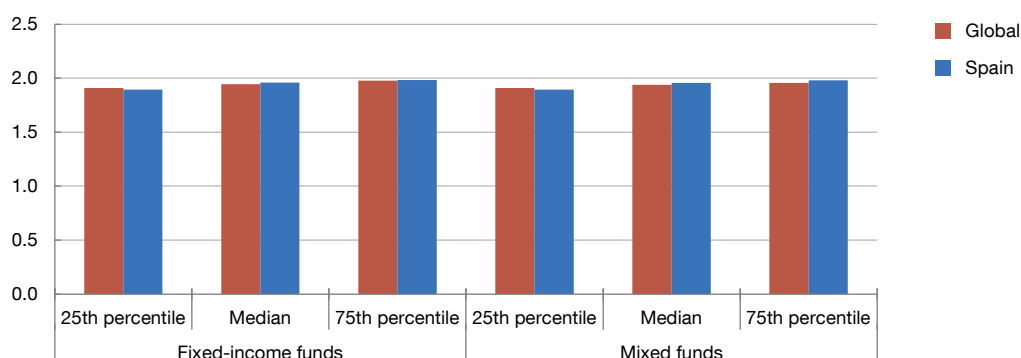
55 Open-ended investment funds account for 97% of the total assets of the non-monetary investment fund sector in Spain.

56 The liquidity indicator is defined as the ratio of (i) total financial assets less liquid assets plus short-term liabilities plus redeemable shares to (ii) total financial assets. This indicator takes a value of 1 when there is no liquidity transformation (all the short-term liquidity demands are backed by liquid assets) and a value of 2 when the assets are illiquid and are fully funded by short-term liabilities.

Chart 3.25

Spanish fixed-income open-ended investment funds and mixed open-ended funds have liquidity risk exposure levels similar to those of their global peers

3.25.a Percentiles of the liquidity indicator for global and Spanish open-ended investment funds (a)



SOURCES: CNMV and FSB. Latest observation: 2023.

a The liquidity indicator is calculated as the ratio of (i) total financial assets less liquid assets plus short-term liabilities plus shares and redeemable shares to (ii) total financial assets. This indicator takes a value of 1 when there is no liquidity transformation (all the short-term liquidity demands are backed by liquid assets) and a value of 2 when the assets are illiquid and are fully funded by short-term liabilities. Within this range a higher value indicates greater exposure to liquidity risk. The global values are percentiles of the distribution across 18 jurisdictions, with an aggregate figure by jurisdiction. The values for Spain are percentiles of the distribution across individual funds domiciled in Spain.

open-ended funds, with a median of 1.956 and 1.937 for the Spanish and global distributions, respectively. The differences in the 25th and 75th percentiles of the distribution are also minimal.

Pension funds

Both contributions to pension funds and their total assets increased notably in 2024.

Gross contributions to pension funds increased by nearly 13% in 2024, despite the lower tax incentives since 2021.⁵⁷ Total pension scheme assets increased by more than 7% at December 2024, compared with the same month a year earlier.

Profitability remained stable. One-year and long-term (25-year) returns stood at 8.8% and 2.3%, respectively, as of December 2024 (unchanged from 2023), cementing the recovery in short-term profitability in this sector.

The favourable situation in the financial markets has driven the expansionary behaviour and return to profitability of pension funds since end-2022. Should the identified risk of financial market corrections (see Chapter 4 and Chapter 5) materialise to

⁵⁷ The maximum pension fund contribution amount that is deductible for personal income tax purposes declined from €8,000 per year in 2020 to €2,000 in 2021 and €1,500 in 2022 (see Article 59(2) of the [State Budget for 2022](#)).

a greater extent than in April, the performance of this sector would likely be less favourable. On the available data, in March 2025 the total assets of pension funds domiciled in Spain grew by 2.8% relative to the same period of last year, and their one-year profitability declined to 3.5%.

Specialised lending institutions

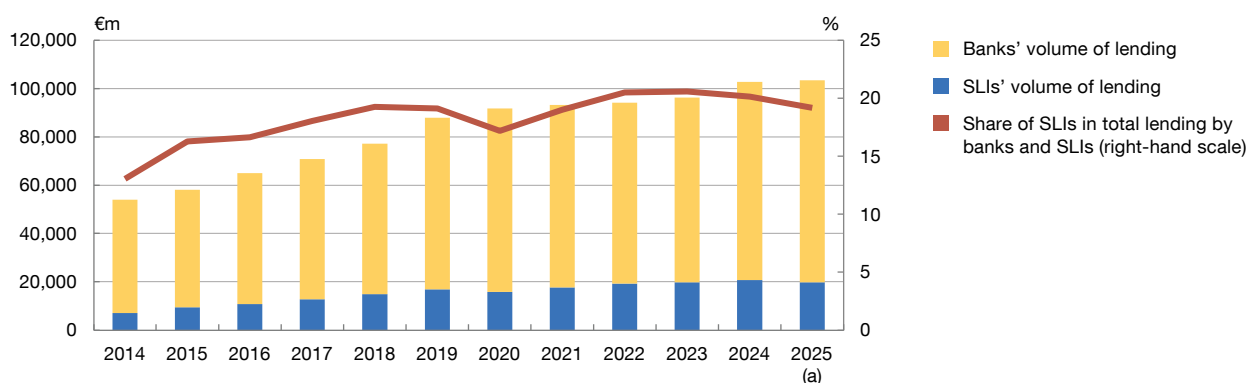
The market share of specialised lending institutions (SLIs) in the consumer credit segment decreased moderately in 2024, in contrast to the generally rising trend of the past decade. In 2024 the share of total consumer lending by SLIs and banks accounted for by SLIs stood at 20.1%, half a percentage point lower than in 2023 (Chart 3.26). This fall in SLIs' share took place in a setting of consumer credit growth in the overall system, which was stronger for banks (7.3% in 2024) than for SLIs (4.4%). The difference in growth between the two groups in 2024 was partly influenced by some banks' absorption of the consumer lending activity carried out until then by SLIs consolidated in them. This effect also explains the sharp fall in SLIs' share observed in 2020. In 2025 Q1 SLIs' share has continued to trend downward, standing at 19.2%.

As regards this segment's credit quality, SLIs' non-performing loan (NPL) ratio increased minimally in 2024. The ratio rose by 0.1 pp to 3.5%, still below that of the banking sector in this product segment (4.3%). The strong performance in the second half of the year contributed to the moderate increase in this ratio. Meanwhile, the share of SLIs' consumer credit classified as stage 2 decreased by 1 pp, to 6.2% (7.3% for banks as a whole). Meanwhile, credit quality worsened somewhat in this credit segment in 2025 Q1, with an increase in NPL and stage 2 ratios, which rose by 0.4 pp to 3.9% and 0.5 pp to 6.7%, respectively.

Chart 3.26

The share of lending by SLIs in consumer lending to households trended upwards in first half of the last decade, but has stabilised in recent years

3.26.a Outstanding balance of banks' and SLIs' consumer lending to households and share of SLIs in the sum of both. Business in Spain. Individual data.



SOURCE: Banco de España. Latest observation: March 2025 (all the dates refer to December except for the last date which is March 2025).

3.3 Systemic interconnections

Spanish banks' participation in the interbank market has increased coinciding with the monetary normalisation process, as the liquidity obtained from the Eurosystem declined.⁵⁸ Between December 2021 and December 2024 funding granted in the interbank market by the main Spanish institutions grew by 40.9%, accounting for 5.2% of banks' total assets at end-2024. For its part, funding obtained increased by 60.2% over this period, and its share in total assets stood at 5.8% at December 2024. As a result, the main Spanish banks as a whole shifted from a balanced position between debtor and creditor interbank balances in 2021 to a moderate debtor position at end-2024 (Chart 3.27).

These increases have led to greater interconnectedness, through the interbank market, with foreign banks in both the euro area and other jurisdictions. Spanish banks' interconnections with other euro area banks, especially French and German ones, have strengthened. At end-2024 financing extended to French and German banks accounted for 0.9% and 0.3%, respectively, of Spanish banks' total consolidated assets and the funding obtained from them accounted for 1.1% and 0.7%, respectively. Interconnections between Spanish institutions remained stable during this period. Outside the euro area, the funding granted in the interbank markets in countries with Spanish bank subsidiaries was noteworthy.

The rest of the euro area's financial sector plays a significant role as holder of securities issued to finance Spain's public and banking sectors.⁵⁹ Specifically, financial institutions in the rest of the euro area own almost one-fourth (24.6%) of Spanish government debt holdings and somewhat more than one-third (33.8%) of the securities issued by Spanish banking institutions (Chart 3.28). In the case of securities issued by the Spanish NBF sector (e.g. investment fund shares or units), holdings by other financial institutions in the euro area are much less significant, accounting for only 4.3% of the volume issued.

Holdings of securities issued by the public and banking sectors in Spain show some degree of geographical concentration. Among the banks in other European countries with holdings of these securities, the banks domiciled in Germany, France and Italy account for the highest share of these holdings (19.4% for bank debt securities and 15.1% for government debt), followed by those domiciled in Luxembourg, Ireland and the Netherlands. The latter jurisdictions' role as financial hubs means that ultimate holders may be located in other geographical areas, suggesting a potentially greater geographical diversification than implied by the available data.⁶⁰ Holdings by financial institutions in other euro area countries are only somewhat relevant in the case of sovereign debt, where they account for 3.8%.

⁵⁸ Data for the eight significant institutions reporting the geographical breakdown of liabilities by residence of the counterparty template.

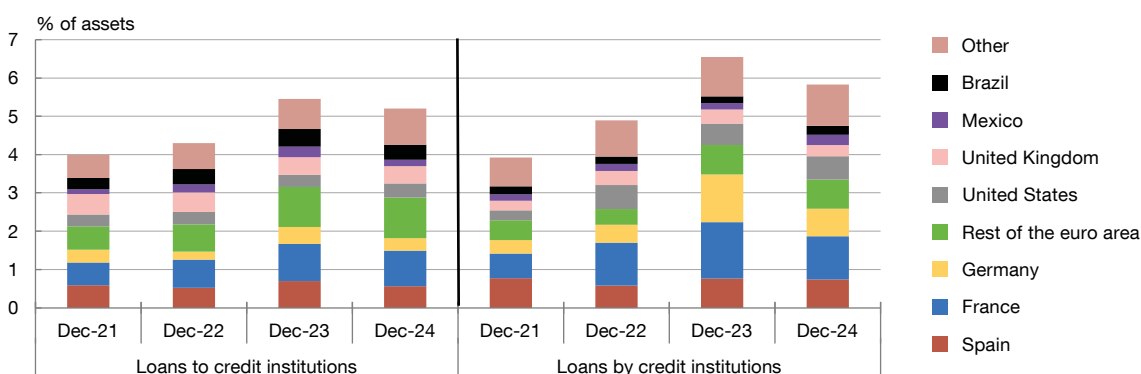
⁵⁹ Securities issued include both short-term and long-term debt, listed shares and investment fund shares or units.

⁶⁰ A financial hub is a jurisdiction with a high concentration of different institutions that provide financial services to both domestic banks and banks domiciled in other countries.

Chart 3.27

Spanish banks' participation in the interbank market has increased and, accordingly, so has their interconnectedness with other, essentially foreign, credit institutions

3.27.a Spanish banks' exposure to the interbank market by residence of the counterparty. Consolidated data. Significant institutions (a)



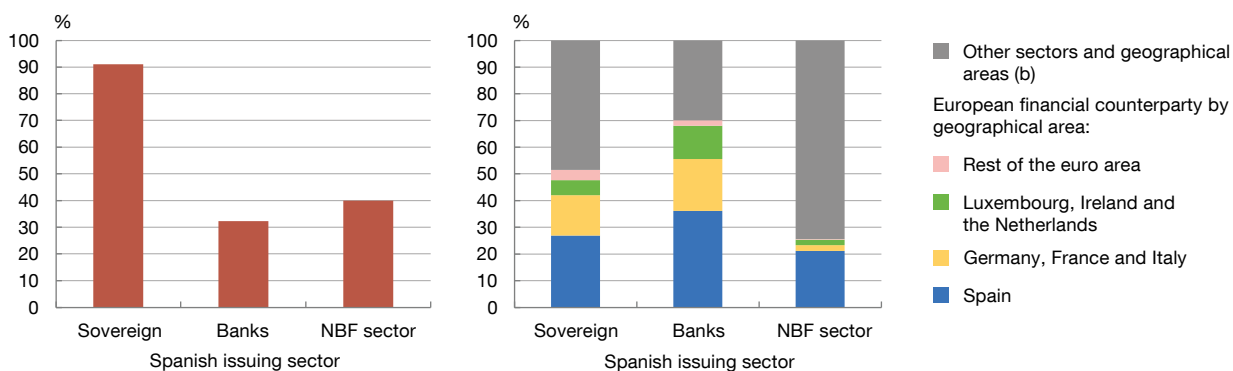
SOURCE: Banco de España. Latest observation: December 2024.

a Data for the eight significant institutions reporting the template "Geographical breakdown of liabilities by residence of the counterparty". At December 2024, the assets of banks reporting this template represented 97.1% of the assets of all significant institutions.

Chart 3.28

The financial sector in the rest of the euro area holds almost one-quarter of Spanish sovereign debt and one-third of the securities issued by Spanish banks

3.28.a Total issuance of securities by each Spanish sector as a percentage of GDP (left-hand panel) and share of these securities holdings in total issuance by geographical area of the holding financial institution (right-hand panel) (a)



SOURCES: ECB and Banco de España. Latest observation: December 2024.

a Includes short-term and long-term debt, listed shares and investment fund shares or units. Securities issued and held by the issuer are not included. Non-consolidated data.

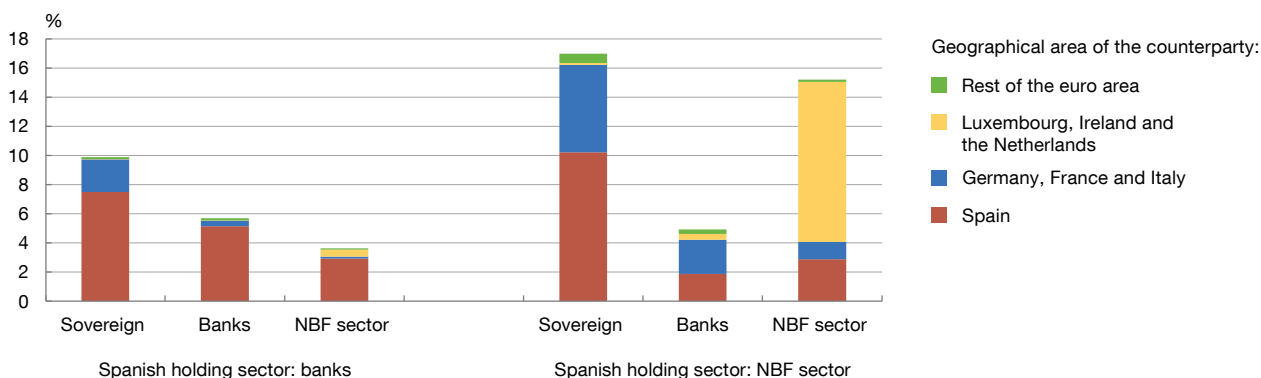
b Includes holders in other geographical areas outside the euro area, Eurosystem holdings and holdings of the euro area's non-financial sector.

The Spanish NBF sector's exposure to securities issued by the public and financial sectors in the rest of the euro area is also important. Overall, at end-2024 22.2% of the Spanish NBF sector's total assets were holdings of securities issued by these sectors in other euro area countries (Chart 3.29). In particular, holdings of securities issued by NBF sector entities domiciled in Luxembourg, Ireland and the Netherlands accounted for 11% of the

Chart 3.29

Securities issued by financial institutions and governments of other euro area countries account for a larger share of Spain's NBF sector portfolio than of its banking sector portfolio

3.29.a Holdings of securities as a percentage of Spanish financial sectors' total assets, by geographical area and sector of issuing institution (a)



SOURCES: ECB and Banco de España. Latest observation: December 2024.

a Includes short-term and long-term debt, listed shares and investment fund shares or units. Non-consolidated data.

Spanish NBF sector's total assets.⁶¹ Also significant are the holdings of German, French and Italian government debt and securities issued by banks in these countries, with a share of 6.0% and 2.4%, respectively, of the sector's total assets. These exposures are lower in the case of the Spanish banking sector, for which holdings of securities issued in other euro area countries account for less than 3.7% of its total assets and are mainly concentrated in German, French and Italian government debt holdings (almost 2.3%).

Direct interconnections with other euro area countries in the interbank and securities markets generate both diversification gains and risk transmission channels for the Spanish financial sector. In an environment of significant risks in the financial markets and where the slowdown in activity in some European countries poses certain macroeconomic risks (Chapter 5), these interconnections should be monitored.

As regards the overall financial position of Spanish residents vis-à-vis the rest of the world, the decline in the negative net international investment position (IIP) continued in 2024 H2.⁶² The negative net IIP fell by 2.2 pp to 44% of GDP at end-2024. This decline reflected the positive impact of the high current and capital account surplus, which reached record highs in 2024, and of nominal GDP growth, partly mitigated by the negative effect of changes in the value of financial instruments, mainly as a result of the increase in the price of Spanish debt.⁶³

⁶¹ Once again, the role played by these jurisdictions as a financial hub means that these positions include exposures to financial assets with a set of potentially more diverse geographical counterparties.

⁶² The negative net IIP is defined as the negative difference between Spain's external financial assets and its external financial liabilities.

⁶³ The current and capital account balance reflects the net lending (+) or net borrowing (–) of the economy vis-à-vis the rest of the world. A large surplus is associated with high net lending.

Spain's gross external debt as a percentage of GDP increased slightly in the second half of the year.⁶⁴ Thus, a 0.2 pp increase raised this ratio to 163.1% of GDP, against a backdrop of growth in non-residents' holdings of general government securities and a rise in funding received by the banking sector, amid the normalisation of the Eurosystem's balance sheet.

64 The gross external debt includes liabilities issued by the sectors resident in Spain held by the rest of the world, excluding equity instruments and financial derivatives.

