

TRADE TENSIONS AND SECTORAL EXPOSURES IN MATERIAL THIRD COUNTRIES FOR SPANISH BANKS

This box analyses the degree of exposure of Spanish banks' portfolio of lending abroad to the adverse but limited economic effects of the tightening of US tariff policy to date.¹

As part of its trade policy, in April the new US Administration announced a widespread hike to its tariffs on goods imports from the rest of the world, setting a minimum of 10%, with higher levels for a large number of countries. The United States has since signed bilateral trade agreements with various major economies (Japan, the European Union (EU) and the United Kingdom), while new specific tariffs on strategic sectors have been adopted.²

These measures have resulted in a broad-based rise in average effective tariffs for most countries.³ Overall, these changes place the average effective tariff for US imports at around 20.5%, the highest level since 1936 and 18 pp above the December 2024 level. At the same time, the trade agreements signed by the US Administration have afforded it greater access to its main trade partners' markets, keeping the tariffs applied to US products at 2024 levels or lowering them to zero.⁴ All this would indicate that the impact of the change in US trade policy will vary not just by jurisdiction, but also by sector, and depend on the tariff implemented, its reciprocity and the sector's degree of integration within the world trade framework.

Spanish banks have a very considerable international presence, with almost half of their lending to firms and households abroad.⁵ Therefore, trade tensions could potentially affect them through a deterioration in the credit quality of their exposures in third countries.⁶ From a macroprudential perspective, the most important countries – referred to as material – for Spanish banks are, in order: the United Kingdom, Mexico, the United States, Brazil, Türkiye, Chile, Peru and Colombia (Chart 1).⁷ These economies account for 72% of the lending granted by Spanish banks to non-resident counterparties.

Tariffs in material third countries

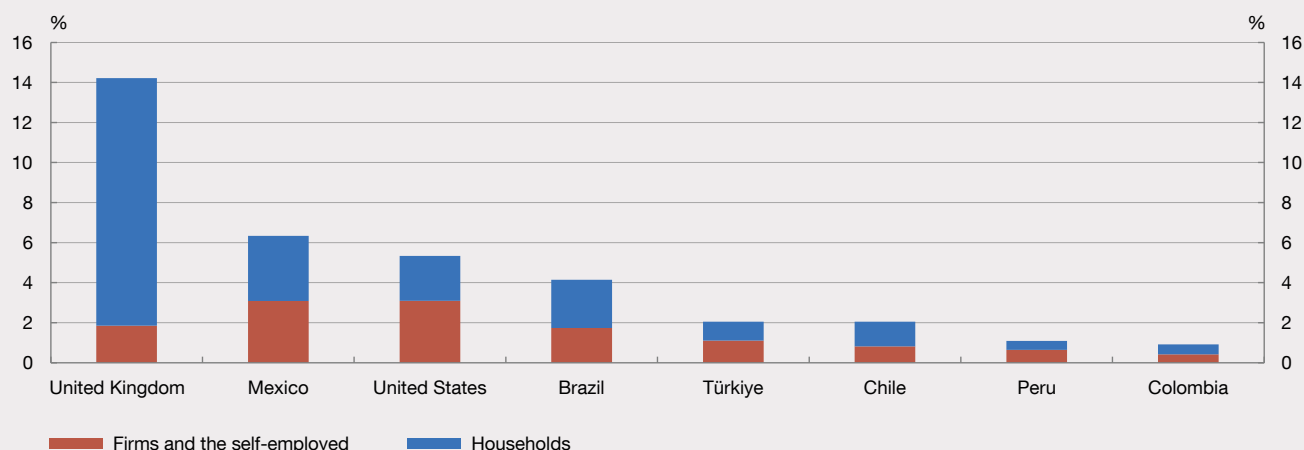
Chart 2 shows the increase since end-2024 in effective tariffs imposed by the United States on material economies for Spanish banks. In the case of the United Kingdom and Mexico – a country whose trade is highly integrated with the United States – the existing or newly signed trade agreements with the United States have mitigated the tariff increases, which have amounted to between 6 pp and 9 pp.⁸ The increase in Peru, Colombia and Chile has also been moderate (9 pp, 8 pp and 6 pp, respectively, from an effective tariff of 0%) due to their smaller trading relationship with the United States. Conversely, in Türkiye and Brazil the increases since December 2024 have been more pronounced: 20 pp (from 3%) and 29 pp (from 1%), respectively.

- 1 This box conducts a fine-grained analysis of the exposure to credit risk in third countries associated with the new tariff scenario, rather than measuring the full impact on Spanish banks' solvency stemming from the tariffs or, more broadly, from the macroeconomic scenario associated with the current geopolitical tensions. The latter type of analysis is addressed via stress tests, as detailed in Box 3.2 of this report. These tools are used to examine not only a scenario with the prevailing policies, but also a hypothetical adverse scenario of further tightening.
- 2 A hike of up to 50 percentage points (pp) on steel, copper, aluminium and their derivative products; of 25 pp on cars, heavy-duty trucks and auto parts; and of up to 50 pp on timber, lumber and their derivative products. In addition, the new US Administration announced a 100% tariff on certain brand-name or patented pharmaceutical products, unless the firms are developing productive capacity in the United States.
- 3 The effective tariff borne by each country depends on both the prevailing tariff rate and the sectoral composition of its exports, impacting economies differently.
- 4 The agreements also incorporate commitments to invest in the United States that make strategic sectors more attractive. For instance, the EU has agreed to €750 billion of energy investment up to 2028, alongside further private commitments in fields such as digitalisation, green technology and defence. The economic effects of these investment commitments are not reflected in the simulation included in this box.
- 5 If the analysis is restricted to internationally active banks, the international exposure stands at close to 70% of all lending to households and firms.
- 6 As analysed in the *Annual Report 2024* of the Banco de España, a trade agreement such as that reached by the United States and the EU would have a very limited economic impact on Spain. This box therefore only analyses the international activity of Spanish banks.
- 7 Under macroprudential regulation, a country is deemed to be material when the credit exposures of Spanish banks to that country surpass a materiality threshold that could pose systemic risks to domestic financial stability. Metrics such as total exposure, risk-weighted assets and the credit quality of the loans in the country are used to calculate the threshold.
- 8 The US-UK deal, ratified on 16 June, raises the total tariff rate by 10 pp above its 2024 level, except for aerospace products, automobiles and automotive parts, on which a lower increase is imposed, while, in the case of steel and aluminium, it is raised by 25 pp, below the 50 pp imposed on other countries. In the case of Mexico, the products included in the United States-Mexico-Canada Agreement are exempt from the tariff hike. In February 2025 the United States set an additional tariff of 25% for other products. Negotiations are currently under way to cut this tariff to 12%, conditional upon the fulfilment of commitments in other areas.

TRADE TENSIONS AND SECTORAL EXPOSURES IN MATERIAL THIRD COUNTRIES FOR SPANISH BANKS (cont'd)

Chart 1

Share of material third countries in total lending to households, firms and the self-employed. June 2025 (a)



SOURCE: Banco de España.

a The denominator includes the stock of loans, in all countries, including Spain, at consolidated level, to households, firms and the self-employed. These countries account for 23.4% of total lending to households and 12.8% of total lending to firms and the self-employed.

The differences in the size of these increases are largely attributable to the sectoral composition of each country's exports to the United States. For instance, Türkiye's trade exposure is high in the metal products and automotive sectors, among others, which are subject to elevated tariff rates. Mexico combines high exposure in the automotive sector with electronic and agrifood exports, which are subject to different rates, contributing to an intermediate increase. Chile and Colombia mainly export primary products such as minerals, coffee and flowers, many of which are exempt or have relatively low tariff rates.⁹

Sectoral impact of tariff hikes

A multi-country and multi-sector model called ONKIO¹⁰ is used to analyse the impact of the higher tariffs on material

third countries' aggregate and sectoral economic activity. For this exercise, the model divides the global economy into 12 geographical areas (the eight material third countries, Spain, the rest of the euro area, China and the rest of the world), each with a 24-sector sectoral structure.¹¹ The model's parameters are set on the basis of the input-output tables of each of the economies analysed.

The impact on activity in all countries is moderate (Chart 3).¹² The United Kingdom suffers the smallest impact in terms of activity, thanks to the above-mentioned tariff agreement, but also because its exposure to goods trade with the United States is relatively low. By contrast, Mexico and Brazil are the material third countries where activity contracts the most, albeit still moderately. In the case of the former, this larger impact than in other

9 In the case of Brazil, the increase has been widespread and very high (50 pp); as a result, the impact of the sectoral composition on the effective tariff is less relevant.

10 For more details, see P. Aguilar, R. Domínguez-Díaz, J.-E. Gallegos and J. Quintana. (2025). "The Transmission of Foreign Shocks in a Networked Economy", Documentos de Trabajo, Banco de España. Forthcoming.

11 The included sectors, defined according to the Spanish National Classification of Economic Activities (CNAE by its Spanish initials), are: agriculture, mining and quarrying, transportation and storage, construction, energy, water supply and sewerage, trade, food products, wood and paper products, refined petroleum products, chemicals and chemical products, pharmaceutical products, plastic products, basic metals, electronic products, machinery, motor vehicles, other manufacturing, real estate activities, professional services, financial services, hospitality, information service activities and other services. This matches the division of economic activities at section level in the CNAE, with manufacturing broken down at division level due to it potentially being harder hit by the tariff measures.

12 The impact on GDP is 1%-14% of the standard deviation of the GDP of these countries in the period 1980-2019.

TRADE TENSIONS AND SECTORAL EXPOSURES IN MATERIAL THIRD COUNTRIES FOR SPANISH BANKS (cont'd)

Chart 2
Increase in effective bilateral tariff with the United States since December 2024

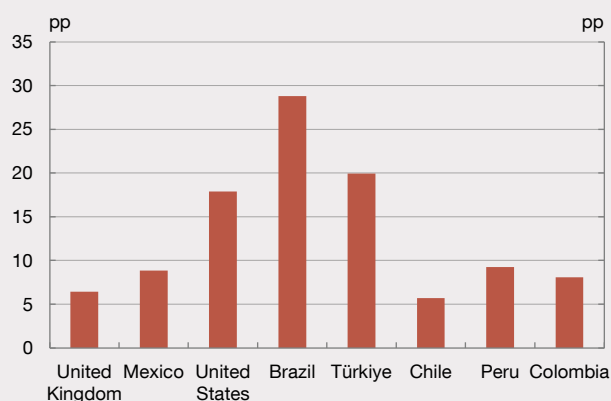
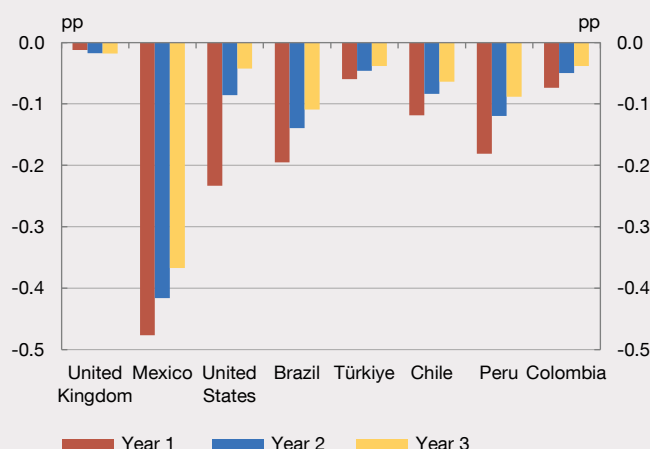


Chart 3
Impact on GDP of the increase in effective tariff (a)



SOURCE: Banco de España.

a Deviation in GDP from its steady state. The steady state is where all the variables of the model remain constant over time because all temporary fluctuations due to shocks have been eliminated.

countries is due to its high exposure to the United States,¹³ while in the latter it is because of a sharp rise in its effective tariff. The impact on the other countries sits between these two extremes. Lastly, the impact on the United States is also relatively high as the costs of its imports increase significantly due to the higher tariffs.

At a disaggregated level, some sectors are particularly affected, such as basic metals, which experiences the steepest fall in activity in five of the eight countries analysed (all except for the United States, the United Kingdom and Chile), the manufacture of motor vehicles and mining and quarrying (Chart 4).

Characteristics of sectoral credit exposures in material third countries

Charts 5 and 6 show that there are marked cross-country differences in Spanish banks' sectoral credit exposures, in terms of both exposure and credit quality. No pre-existing vulnerabilities stemming from the highest non-performing loans (NPL) ratios being concentrated among the sectors accounting for the highest share of the total are detected in either corporate credit or lending to households.

Sectoral risk exposures

The exposure to the tariff shock that Spanish banks are contending with in their material international business can be proxied by combining the tariff impact at sector and material third country level and the credit exposure at the same level of granularity.

Chart 7 depicts the impact on sectoral gross value added (GVA) one year after the introduction of the tariffs and the credit exposure of Spanish banks, distinguishing between manufacturing and other business activities. This analysis shows that the manufacturing sectors of some countries where credit exposure is relatively limited are the hardest hit, while the impact is relatively moderate in those sectors and countries with greater exposure.

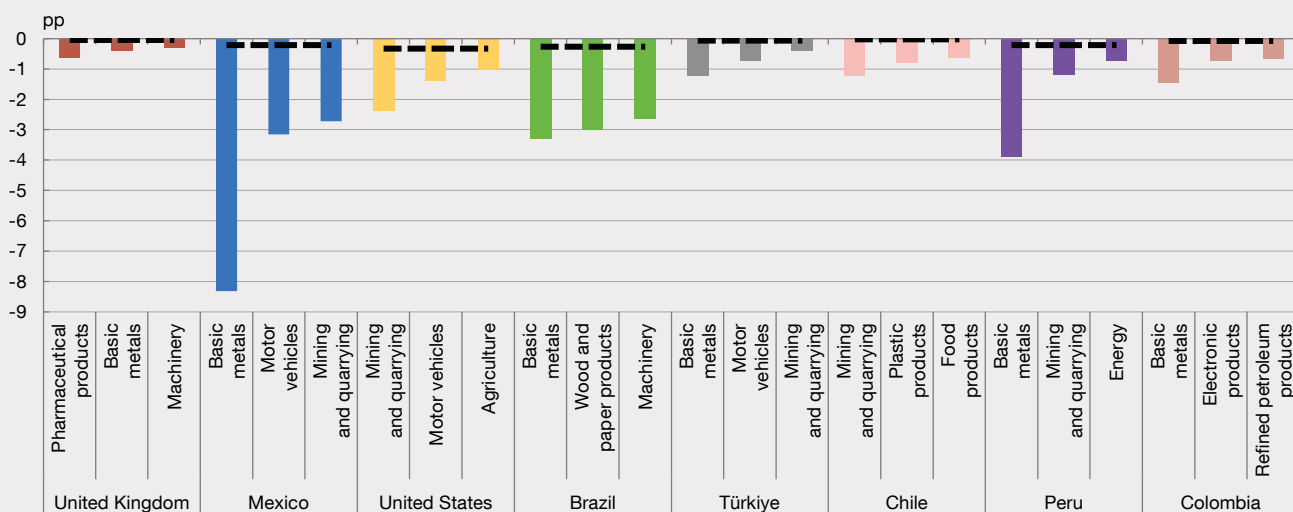
These sector level results suggest that the impact of the increases in effective tariffs is muted. However, the overall impact in each country is the result of aggregating all the sectoral impacts in that country. Thus, an accumulation of moderately sized impacts could result, once aggregated, in greater consequences for banks that are active in certain countries.

¹³ Mexico's exports to the United States account for around 50% of its GDP.

TRADE TENSIONS AND SECTORAL EXPOSURES IN MATERIAL THIRD COUNTRIES FOR SPANISH BANKS (cont'd)

Chart 4

Impact on sectoral GVA of the higher tariffs (a)

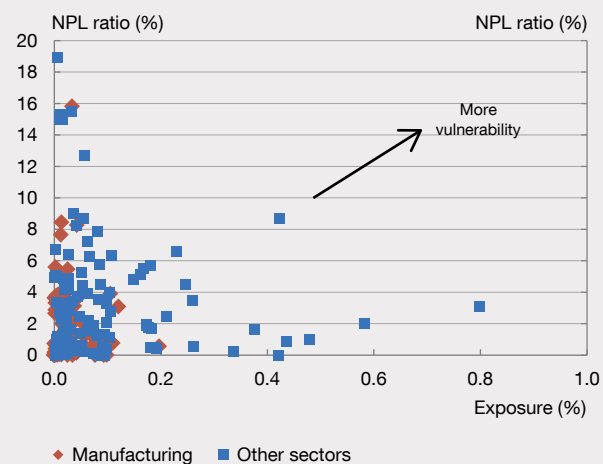


SOURCE: Banco de España.

a Deviation in GVA from its steady state after the first year. The steady state is where all the variables of the model remain constant over time because all temporary fluctuations due to shocks have been eliminated. The broken line depicts the median impact on each country's sectors.

Chart 5

Relationship between Spanish banks' exposure and the NPL ratio of each sector in each country (a)

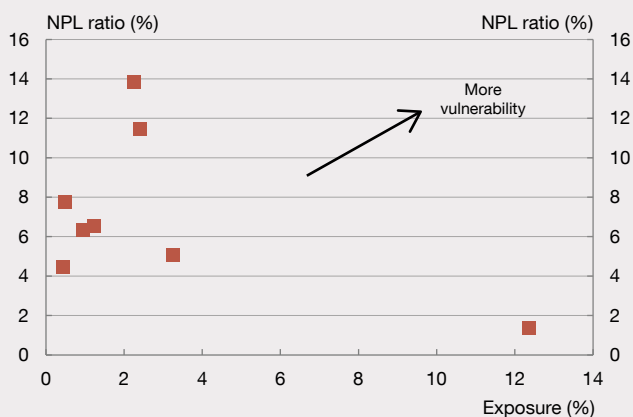


SOURCE: Banco de España.

- a Exposure is calculated as each sector/country as a percentage of total loans, in all countries, including Spain, at consolidated level, to households, firms and the self-employed. Two sectors with a low level of exposure but high NPL ratios are not depicted in the chart as doing so would distort its depiction. In both cases the level of exposure is below 0.03%.
- b Exposure is calculated as the household sector in each country as a percentage of total loans, in all countries, including Spain, at consolidated level, to households, firms and the self-employed.

Chart 6

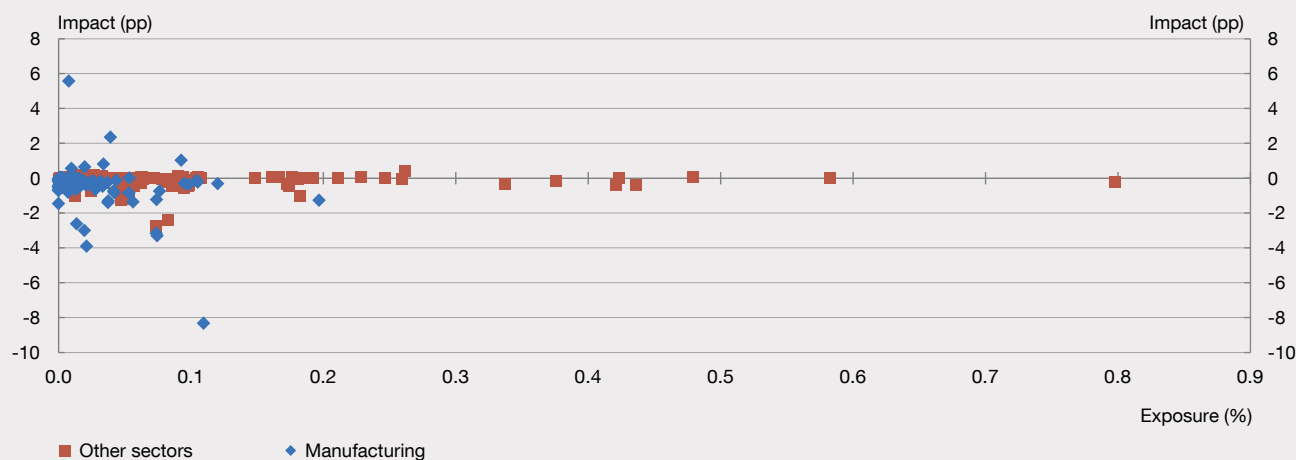
Relationship between Spanish banks' exposure and the household NPL ratio in each country (b)



TRADE TENSIONS AND SECTORAL EXPOSURES IN MATERIAL THIRD COUNTRIES FOR SPANISH BANKS (cont'd)

Chart 7

Relationship between Spanish banks' exposure and the impact of the tariff increase on the GVA of each sector in each country in one year (a)

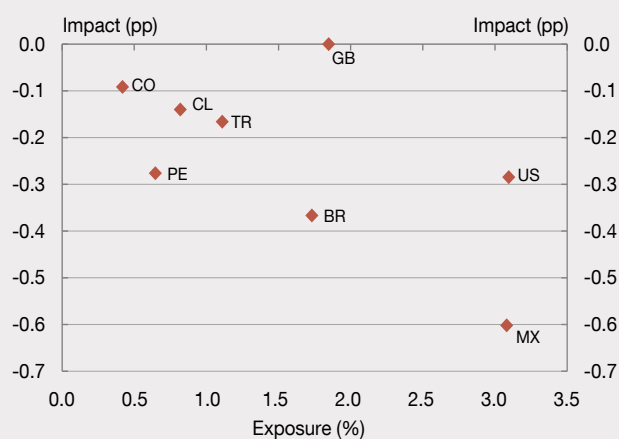


SOURCE: Banco de España.

- a Exposure is calculated as each sector/country as a percentage of total lending, in all countries, including Spain, at consolidated level, to households, firms and the self-employed.

Chart 8

Relationship between Spanish banks' corporate exposure and the impact of the tariff increase on the GVA of the corporate sectors of each country in one year (a) (b)

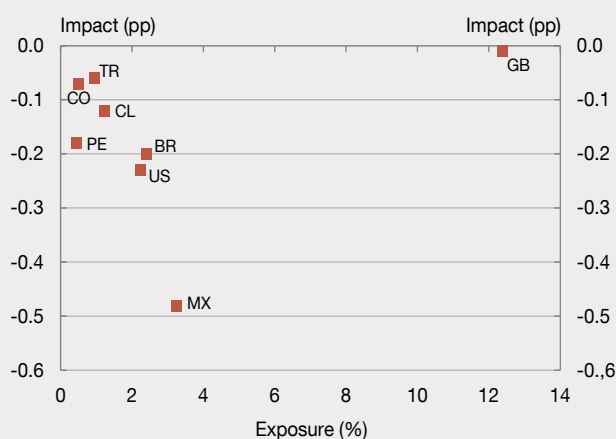


SOURCE: Banco de España.

- a Exposure is calculated as each sector/country as a percentage of total lending, in all countries, including Spain, at consolidated level, to households, firms and the self-employed.
- b For each country, the impact of the tariff increase on each sector's GVA has been multiplied by the percentage of Spanish banks' exposure to each sector in the country. The product is the weighted average of the impact in the country according to the sectoral distribution of Spanish banks' lending to firms in that country.
- c Exposure is calculated as the household sector in each country as a percentage of total lending, in all countries, including Spain, at consolidated level, to households, firms and the self-employed.

Chart 9

Relationship between Spanish banks' exposure to households and the impact of the tariff increase on each country's GDP in one year (c)



TRADE TENSIONS AND SECTORAL EXPOSURES IN MATERIAL THIRD COUNTRIES FOR SPANISH BANKS (cont'd)

Chart 8 depicts this analysis, which is based on an indicator that weights the impacts of the tariff shock on sectoral GVA by Spanish banks' exposure in that sector and country,¹⁴ and shows that the impact at country level is also limited. This metric reveals that these exposures tend to be concentrated in relatively harder hit countries, such as Mexico, the United States and Brazil. However, the highest values both for exposures to the hardest hit countries (3%) and for the largest impacts (close to 0.5% in Mexico) are moderate.

In addition, given that trade tensions also impact household income, employment and consumption in the material third countries, Spanish banks could be affected by a reduction in households' ability to pay. To study this effect, Chart 9 compares, for each country, the impact on

GDP – used as a proxy for the impact on gross disposable income – with its share in consolidated lending to households. In this case, in Mexico, the United States and Brazil the impact – albeit moderate – is relatively higher than in other countries and credit exposure is material. In the country with the highest exposure to households (the United Kingdom), the impact on this portfolio would be negligible.

Conclusions

In sum, the results show that the degree of geographical and sectoral diversification of Spanish banks in material third countries, and the very size of the economic impact of the tariffs already adopted, would curb the adverse effect of this policy on the lending business.¹⁵

¹⁴ Constructed as the average of the effects on each sector's GVA, weighted by its relative share of credit. As a result, a composite metric of the impact is obtained, based on the relative shares of the sectors in terms of their materiality for Spanish banks, and not in terms of their importance for each country's economy (which is reflected by the impact on GDP). This metric reveals that, in most countries, Spanish banks' credit exposures tend to be more concentrated among sectors more vulnerable to the effects of tariffs, compared with their share in terms of GVA.

¹⁵ This result is aligned with the information provided by the *Bank Lending Survey for 2025 Q3*, which, in the last two quarters, has asked Spanish banks about their perception of the effects of the higher tariffs. Respondent banks consider that the impact is proving very limited, although the majority of banks say they are stepping up their monitoring of the potentially hardest hit sectors and firms, such as exporters and firms with business in the United States. They also do not expect the higher tariffs to have a significant impact in the coming months.