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EXECUTIVE SUMMARY

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

HOUSEHOLDS	Sound performance of income, employment and wealth Historically low debt level Lower interest rates contribute to reducing the interest burden, which is expected to stand at a moderate level in the coming years
FIRMS	Sound performance of profit, albeit unevenly across sectors Historically low debt level Lower interest rates contribute to reducing the interest burden, which is expected to stand at a moderate level in the coming years
PUBLIC SECTOR	High debt level Upward pressures on government expenditure (defence, demographics, etc.) Lack of specificity in fiscal consolidation plans Fiscal vulnerabilities in global systemically important economies
BANKING SECTOR	Bank profitability continues to perform positively Lower net interest income suggests a less conducive setting for profitability Bank solvency and liquidity positions noticeably above requirements Stress tests show that the sector is resilient overall, but it is necessary to continue monitoring macro-financial risks in an uncertain environment Lending to households and firms in Spain has grown and its credit quality has improved
NON-BANK FINANCIAL SECTOR	The non-bank financial intermediary (NBFI) sector has some vulnerabilities at global level (leverage, liquidity) and may amplify shocks to financing conditions and availability Also at global level, impacts to the NBFI sector may affect the banking sector via interconnections Investment funds domiciled in Spain have moderate levels of leverage and liquidation risk that are lower than those of the euro area
LENDING STANDARDS REAL ESTATE MARKET	The strong demand for housing relative to supply has significantly driven up real prices The share of real estate and construction activities in GDP is far from the high levels observed before the 2008 crisis Relative to GDP and to the stock of bank loans, the growth in real estate lending is limited and has not resulted in increased household indebtedness There are no signs of a significant easing in mortgage lending standards
FINANCIAL MARKETS	Risk-bearing asset valuations are high Global stock market capitalisation is highly concentrated on a small number of US tech firms The increase in France’s sovereign risk premium has not spread to other euro area economies

SOURCE: Banco de España.

a The green (red) shields denote the circumstances of the financial position of each sector or market 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.

Since the Spring 2025 *Financial Stability Report* (FSR) was published, trade agreements between the United States and other countries have reduced some of the risks to financial stability. Nonetheless the global geopolitical and macro-financial environment remains marked by a high level of uncertainty. Similarly, amid high valuations, the risk of a sharp correction in global financial markets persists. Against this backdrop, the key sectors for the stability of the Spanish financial system have maintained a stable and broadly favourable financial position. However, vulnerabilities linked to high government debt remain.[1]

Households and firms

In Spain, household income and corporate earnings performed well in the first half of the year, although growth rates were somewhat lower than in 2024. This income growth helped keep debt ratios low by historical standards. It also contributed to a reduction in debt burden ratios, a trend also aided by lower reference interest rates, although to a lesser extent than in 2024. Debt and interest burden ratios are expected to stand at historically moderate levels in the coming years (see Sections 2.1 and 2.2).

Public sector

A favourable fiscal landscape will foreseeably lead to a further reduction in Spain's budget deficit in 2025, to close to 2.5% of GDP (down 0.7 percentage points (pp) on 2024). A somewhat smaller deficit of 2.3% is expected in the following two years. Even so, the government debt ratio will not decline significantly, holding at around 100% of GDP in 2027 (see Section 2.3).

This relatively high level of government debt – above the euro area average – remains a vulnerability for the Spanish economy, limiting the fiscal space to respond to potential adverse shocks. It also raises the sensitivity of government debt interest spending to changes in financial market conditions.

This is a particularly significant vulnerability given the high debt levels and budget deficits in global systemically important economies like the United States and France, with no clear prospect of curbing them. Any loss of confidence in their fiscal policy would likely push up these countries' debt financing costs, which – given their importance for the world economy – would have an adverse impact on other countries and could reduce the general willingness of global financial markets to assume sovereign risk.

Reducing government debt in Spain, as well as in the euro area as a whole, presents significant challenges. Debt developments are subject to upside risks linked to population ageing and spending demands related to the digital transformation, climate change and defence. Specific

1 In this report, vulnerabilities are defined as economic and financial conditions that increase the impact or probability of materialisation of risks to financial stability.

measures to control spending and/or increase revenue are therefore required. The Medium-Term Fiscal-Structural Plan presented by Spain in late 2024 lacks any such specifics. Further, the absence of State budgets limits the Government's ability to adopt more specific measures.

Banking sector

The Spanish banking sector's financial position improved further in 2025 H1. In particular, return on equity held at high levels, reaching 14.6%. Return on assets was likewise high. The earnings of the main listed banks remained robust in 2025 Q3.

In June 2025, net interest income – which had been the main driver of the sector's profitability – showed a year-on-year decline of around 10 basis points (bp) as a share of total assets. This drop owes to the tightening of net interest margins amid stabilising reference interest rates. That negative effect was more than offset by favourable developments in other items, such as net fee and commission income, impairment losses and other operating income.

However, part of the increase in profitability owes to temporary or one-off positive effects (e.g. the elimination of adjustments for hyperinflation in material economies) (see Section 3.1.1). Similarly, the slowdown in net interest income creates an environment less conducive to bank profitability growth.

Solvency increased in June 2025, with the common equity tier 1 (CET1) ratio[2] standing at 13.8%, 0.5 pp above its level 12 months earlier. This was due to the 5% rise in CET1 capital, which more than offset the growth in risk-weighted assets (see Section 3.1.2).

In 2025 H1 Spanish banks' CET1 ratio remained below that of other major European Union (EU) banking systems, although the gap narrowed year-on-year. The difference versus the European average is smaller in terms of the voluntary CET1 buffer,[3] while Spanish banks' leverage ratio[4] is comparable to that of euro area banks.

Further stress test exercises have been conducted since the publication of the last FSR, both EU-wide tests coordinated by the EBA and the Banco de España's own stress testing. According to the results, the Spanish banking sector's capital position provides a considerable level of aggregate resilience in the face of various adverse scenarios. In any event, ongoing monitoring of the significant risks to the banking system is required amid high levels of uncertainty.

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2 The CET1 ratio is defined as CET1 capital (the highest quality of regulatory capital) divided by risk-weighted assets. Assets with lower associated financial risks (e.g. government debt) receive a lower weighting in the calculation of the denominator – the logic being that lower-risk assets are less likely to incur unexpected losses that need to be absorbed by available capital.

3 The voluntary buffer is the difference between the CET1 ratio and the sum of the prudential supervisory CET1 requirement and the Pillar 2 Guidance.

4 The leverage ratio is defined as Tier 1 capital (CET1 capital plus additional Tier 1 capital) divided by on and off-balance sheet assets (not risk weighted).

Spanish banks' consolidated assets grew by 4.1% year-on-year in 2025 H1, up from 3.3% in December 2024, with significant momentum in domestic business (see Section 3.1.3). Lending to households and non-financial corporations resident in Spain grew by 3.1% and 2.1%, respectively, in the 12 months to June 2025 (see Section 3.1.4). This confirms the recovery of some dynamism in bank lending against a backdrop of lower interest rates.

The credit quality of loans to the Spanish private sector continued to improve in the first half of the year. In June 2025 the non-performing loan (NPL)[5] ratio stood at 2.9% and the stage 2[6] ratio at 5.7%, down 0.4 pp and 1.3 pp, respectively, on a year earlier (see Section 3.1.4).

The decrease in reference interest rates translated into a lower average cost of consolidated liabilities (2.7% in June 2025). Spanish banks' liquidity and net stable funding ratios held at secure levels, comfortably above minimum requirements (see Section 3.1.5).

Non-bank financial sector

Spain's non-bank financial intermediary (NBFI) sector[7] continued to grow in 2025 H1, although its size relative to the banking sector remains well below that of the broader euro area (see Section 3.2). The analysis of investment fund outflows and leverage and liquidity ratios indicates a lower level of risk in Spain than in the euro area overall. However, the liquidity ratios for the two geographical areas are below the average for the period 2018 Q1-2025 Q2.

In line with previous FSRs, no significant risks were detected in the domestic NBFI sector. However, this sector could be adversely affected by any abrupt and severe correction in the valuations of risky financial assets (see Section 4.2), which could potentially trigger the liquidation of assets. This risk is higher for intermediaries with high leverage and low liquidity, as is the case at the international level for various open-ended investment funds and hedge funds. However, such intermediaries have a minor market share in Spain and the euro area.

Given their international diversification, Spanish banks have direct interconnections with the NBFI sector in different geographical areas, although these represent a limited fraction of total assets (see Section 3.3).

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

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

7 The NBFI sector includes money market funds, non-monetary investment funds, insurance companies, pension funds and other NBFIs. In turn, the latter subcategory includes specialised lending institutions, venture capital firms, securities dealers, financial vehicle corporations, 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.

Real estate market

House purchase prices and volumes have continued to grow strongly in 2025 so far, although they have slowed in recent months. These developments reflect the strength of demand, driven by factors such as population growth and the tourism boom. In the case of prices, relatively rigid supply has also played a role (see Section 4.1.1).

Nearly 90% of the 375,000 property transactions in 2025 H1 involved second-hand homes. New housing production remains low by historical standards and the construction sector's share of economic activity is smaller than in previous growth periods, particularly compared to the pre-2008 real estate bubble. There is, therefore, no evidence of systemic vulnerability linked to excessive construction activity. Indeed, limited housing production has contributed to upward price pressures.

In real terms, house prices in June 2025 were at the same level as in 2005 Q2 and 17.5% below their peak in 2007. Since 2024 Q3, real house price growth has outpaced the rise in average real income per household. Current house prices stand above long-term estimates based on the historical relationship between prices, household income and interest rates. However, these estimates remain well below the highs recorded in early 2008.

Developments in real house prices have varied significantly across provinces since the pandemic. Provinces with higher price levels have seen stronger price growth, while those with moderate or low prices have seen only modest or no increases. Unlike the widespread price rises during the 2000s property boom, there has been no country-wide increase in prices.

The buoyancy of the housing market has come alongside growth in real estate loans, with notable increases in new mortgage business. The stock of loans for house purchase, property development and construction rose moderately (see Section 4.1.2). In any case, lending conditions for new mortgages show no significant signs of loosening, with only very limited increases in the loan-to-value and loan-to-income ratios. Likewise, there are no signs of excess in the ratio of real estate loans to either GDP or to total bank lending to the Spanish private sector (see Section 4.1.2). All this is consistent with the previously noted favourable financial position of the household sector.

Overall, there are significantly fewer vulnerabilities in the real estate market than in the years before the real estate crisis. The current rise in prices comes against a backdrop of historically weak construction activity, low household debt, moderate levels of housing loans and lending standards that show no significant signs of loosening.

Financial markets

Since the publication of the Spring 2025 FSR, monetary policy in both the euro area and the United States has eased moderately. Market expectations point to further policy rate cuts in the United States and smaller reductions, in the euro area. Against this backdrop, interest rates in euro area money markets have moved only to a limited extent.

The episode of turbulence in April was quickly left behind and financial markets have since performed strongly (see Section 4.2.). The depreciation of the US dollar against other currencies, such as the euro, has slowed and international investment flows to the United States have normalised.

Despite fiscal vulnerabilities identified in various countries, there have been no notable signs of stress in sovereign debt markets as at the cut-off date for this FSR. In particular, long-term sovereign debt yields have fallen in most euro area countries and, in particular, in the United States.

The sovereign spread on French government debt has widened, reflecting the increased political uncertainty in France. Its implied rating, as based on credit default swap (CDS)[8] market prices, also indicates that investors' outlook is more pessimistic than that of the rating agencies. Nevertheless, the cost of funding for the French state remains moderate.

In general, the high valuations of risky financial assets from a historical perspective is still a key vulnerability, amid a low level of market volatility and persistent uncertainty over global economic policies and outlook.

Corporate bond risk premia have fallen and remain low by historical standards, especially in the high yield segment. In equity markets, valuations are high, especially in the United States, linked to the boom in the technology sector, where market capitalisation is becoming increasingly concentrated.

Crypto-asset capitalisation rebounded strongly until early October, but it experienced significant partial corrections in that month. These assets still represent a small share of financial markets, but they are expected to expand and become increasingly interconnected with the traditional financial sector.

Risks

Geopolitical tensions continue to pose notable risks to financial stability,[9] linked to both uncertainty over international economic relations and ongoing military conflicts (see Section 5.1).

Agreements reached between the United States and other countries – and in particular with the EU –, have helped reduce uncertainty surrounding trade policy. Globally, the recent provisional trade agreement between China and the United States has been important in easing tensions.

8 CDSs are a financial derivative that acts as coverage against default risk.

9 Risks are identified in this report as adverse changes (and with an uncertain probability) in economic and financial conditions or in the physical or geopolitical environment that hamper or impede financial intermediation and have negative consequences for real economic activity.

Despite these positive developments, uncertainty still clouds the future of international economic relations. It will take time to properly assess the economic consequences of the agreements already reached. In addition, the implications of non-tariff aspects (e.g. European investment in the United States and purchases of US energy and arms under the agreement) are difficult to quantify.

Beyond trade, a great deal of uncertainty surrounds US economic policy. In particular, pressure on independent government agencies may foster the build-up of medium and long-term vulnerabilities, with global repercussions.

The global economic impact of the major military conflicts that have broken out since 2022 (the Russia-Ukraine war and conflicts in the Middle East) has been significant, but limited so far, which has contributed to a widespread reduced perception of this risk. However, there remains the potential for rapid military escalation, which could sharply reverse expectations and potentially lead to major upheaval in financial markets and economic activity.

The risk of abrupt and severe corrections in international financial market valuations – already identified in the Spring 2025 FSR – continues to warrant attention. This risk is deemed to be high because, despite the complex geopolitical environment and global fiscal vulnerabilities, risky financial asset valuations remain high (see Section 5.2). If such corrections occur, they could affect various market segments, including equities and sovereign and corporate debt.

The concentration of market capitalisation in large US technology firms creates additional risks by increasing the likelihood that idiosyncratic shocks to their business could have systemic effects. Moreover, these firms are trading at particularly high valuations based on expectations of significant profit growth, which may not materialise if risks associated with technological progress and competition – such as in artificial intelligence – are realised.

Other macroeconomic risks for Spain appear relatively limited (see Section 5.3). Nevertheless, the fiscal vulnerabilities identified broaden the scope of shocks, even if limited in scale, that can shake confidence in fiscal sustainability. This consideration also applies to other countries with significant government indebtedness.

In the technological sphere, cyber risk management continues to grow in importance, driven in no small part by geopolitical tensions and the possibility of hybrid attacks (see Section 5.4).[10] Over the medium and long term, emerging risks are also envisaged in connection with the expansion of crypto-assets and their growing interconnectedness with the traditional financial sector.

10 Hybrid attacks combine various approaches (cyber attacks, propaganda, political interference, etc.) in an attempt to exploit weaknesses in critical infrastructure, undermine social cohesion and erode trust in institutions. Typically, an attacker will seek to maintain plausible deniability for their actions.

Macroprudential policy

The macroprudential policy of the Banco de España (see Chapter 6) remains focused on strengthening the banking sector's releasable capital. Accordingly, the countercyclical capital buffer (CCyB) requirement set by the Banco de España was raised at the beginning of 2025 Q4 to 1%, 0.5 pp higher than 12 months earlier. This increase will only be applicable from 1 October 2026. The CCyB requirement has thus been brought into line with the intermediate level of cyclical systemic risk currently observed in Spain.

The list of other systemically important institutions (O-SIIs)[11] for 2026 remains unchanged from the previous year, comprising Banco Santander, BBVA, CaixaBank and Banco Sabadell. The O-SII capital buffer has been cut by 25 bp for BBVA (in line with a reduction in indicators of its systemic importance), but is unchanged for the other three banks (see Section 6.2).

The Banco de España continues to monitor lending standards closely and is strengthening its analytical framework to guide decisions, when applicable, regarding the implementation of macroprudential limits on lending standards, i.e. borrower-based measures (BBMs). As such, Chapter 6 includes a review of the scientific literature on the international precedents in the use of BBMs (see Box 6.1).

The cut-off date for this FSR is 29 October 2025.

11 O-SIIs are designated based on their systemic importance to the Spanish economy. Their proper functioning is essential for the entire financial system to operate effectively and not hinder economic activity. Banco Santander is also designated a global systemically important institution. In this instance, its systemic importance is significant for the global economy rather than just the national economy.