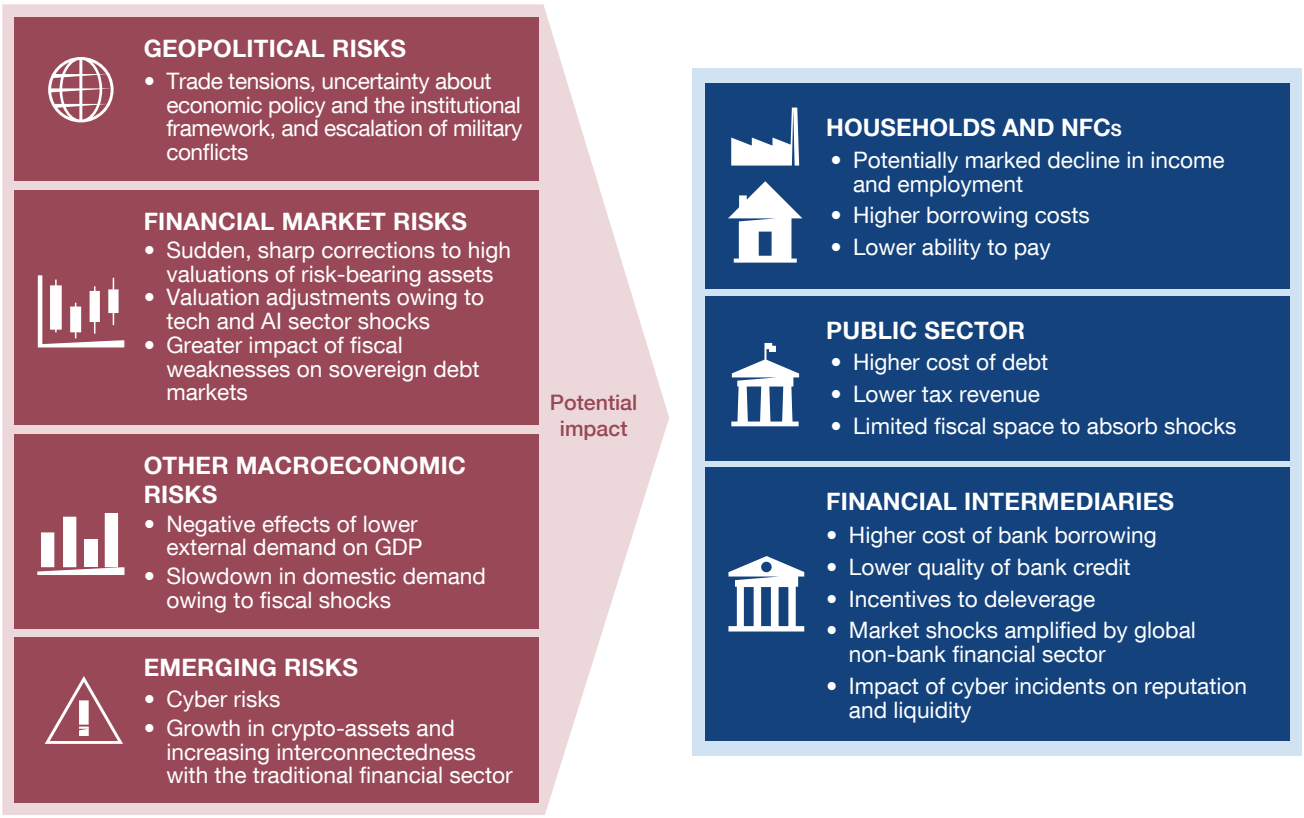
5

RISK ANALYSIS

Figure 5.1
Risk analysis (a)



SOURCE: Banco de España.

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

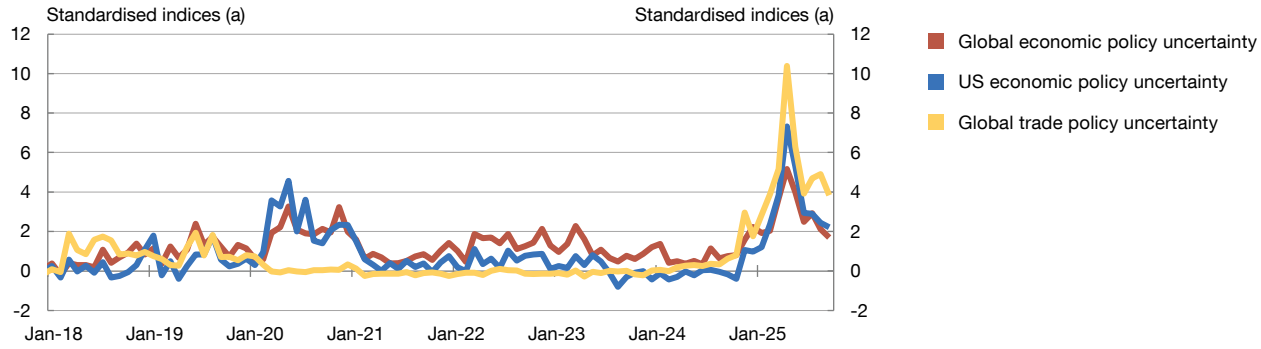
This chapter discusses the risks to the stability of the Spanish financial system identified by the Banco de España and how they may interact with the vulnerabilities analysed in previous chapters. This risk diagnosis is underpinned by discussions held between Banco de España staff and various external experts (see Box 5.1) and by its own analysis.

5.1 Geopolitical risks

Geopolitical tensions continue to be one of the main sources of risk to global financial stability. Even though the recent agreements reached between the United States and some of its main partners have helped reduce trade policy uncertainty, it remains above the normal levels observed since the late 1990s (Chart 5.1). More generally, uncertainty about US economic policies and the economic governance framework worldwide have global implications. Moreover, the persistence and possible escalation of military conflicts pose additional risks.

Chart 5.1
Economic policy uncertainty indicators remain high

5.1.a Uncertainty indicators



SOURCE: Economic Policy Uncertainty drawing on data from Scott R. Baker, Nicholas Bloom and Steven J. Davis. (2016). Measuring Economic Policy Uncertainty. *The Quarterly Journal of Economics,* 131(4), pp. 1593-1636. Latest observation: September 2025.

a Standardised indices with data from 1997, the first year of the global economic policy uncertainty series.

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Trade tensions

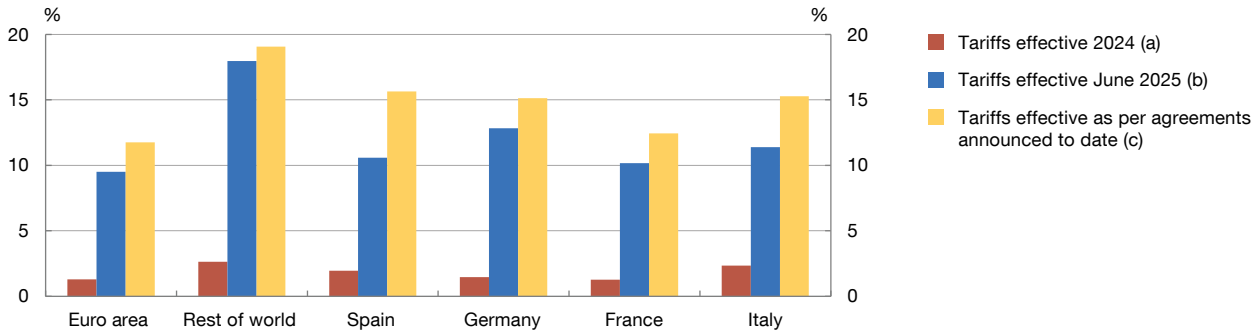
In recent months, agreements have been reached between the United States and its main trading partners, at the same time as the tariff hikes already approved have become effective. Since April the United States has agreed trade deals with the European Union (EU), China, Japan and the United Kingdom. Nevertheless, the average effective tariff on US imports stood at 18% at end-October (including announced measures), compared with barely 3% at December 2024. Imports from the euro area are subject to a somewhat lower average tariff of close to 11%, compared with 1% at end-2024 (Chart 5.2).

These agreements have reduced trade risks, but some elements of uncertainty remain. Despite the recent agreements between the United States and China to reduce mutual tariffs, the tensions between the two countries and the uncertainty regarding the final outcome of the trade talks persist. In addition, several of these agreements include non-tariff clauses whose effects on global trade are unclear. For example, in the US-EU agreement, they affect key sectors such as defence and energy and provide, in particular, for increased purchases of US defence and energy equipment and investment by EU firms in the United States. The agreement also envisages other measures related to national security and rules of origin,[1] similar to the deals reached with other countries such as the United Kingdom.

1 Rules of origin serve to determine the country of origin of a product, to enable the appropriate distinctions to be made when applying measures such as tariffs and quotas.

Chart 5.2
The United States has increased its tariffs on its trading partners in 2025

5.2.a US tariffs on imports



SOURCES: US Trade Census and Banco de España. Latest observation: 29 October 2025.

a Tariffs effective in 2024.
b Tariffs effective at 1 June 2025.
c Tariffs effective according to agreements announced up to 29 October 2025. It also includes tariffs announced, although some may not yet be effective or may not have been confirmed by both parties to the agreement. By way of exception, it does not include the new tariffs on medium and heavy-duty trucks, buses and their parts announced on 17 October and set to become effective on 1 November 2025.

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US policies

Uncertainty about US economic policies remains high and encompasses various areas. These notably include immigration policy (with restrictions being introduced that have the potential to reduce the labour supply), financial deregulation and measures to fuel growth in stablecoins (see Section 5.4) and, more generally, some changes to the institutional framework that particularly affect the independence of various public agencies.

Political pressure on independent government agencies entails risks to macroeconomic and financial stability. If institutions, including the Federal Reserve System, are subject to political pressure, it could jeopardise their independence and affect economic policy decisions. This would pose various macroeconomic risks, primarily to price and financial stability, especially over the medium to long term. All these developments may also ultimately affect the role of the dollar as an international reserve currency, potentially giving rise to international financial fragmentation.

Military conflicts

It is difficult to predict the global economic impact of the major conflicts seen since 2022, which so far has been significant but limited. The war between Russia and Ukraine has intensified this year,[2] while tensions persist in the Middle East, despite the Gaza peace agreement. The limited global economic effects of these conflicts have helped

2 See, for example, the Conflict Monitor for the war in Ukraine.

keep the perception of this risk low,[3] but escalation, albeit uncertain, could be rapid. This could trigger global supply chain disruptions – especially in energy commodities – and a widespread increase in risk aversion.

Potential impacts of geopolitical risks

With its high degree of trade openness, the Spanish economy could be affected by a global slowdown if geopolitical risks continue to materialise. Spain's lesser direct exposure to the United States, compared with other European economies, mitigates the risks through trade channels. Nevertheless, the drag on activity would reduce the income of households and firms and thus their ability to pay. This in turn would drive up both credit risk and impairment provisions at banks, diluting their profitability. If this hypothetical global downturn were accompanied by a tightening of financing conditions, the private sector's financial position would tend to deteriorate further, although low private sector indebtedness and the banking system's broad retail funding base would partially offset these potential impacts (see Sections 2.1, 2.2 and 3.1 of this report). General government, with a weaker starting position, would be particularly affected by a slowdown in activity and higher borrowing costs.

NATO members are set to increase their military expenditure significantly over the coming years in view of their new spending commitments. Historical evidence suggests that, under certain conditions, this type of fiscal impulse can trigger greater economic dynamism. However, the specific impact is difficult to estimate and depends on a multitude of factors, not least the size of the fiscal impulse, its components (for example, spending on personnel versus research and development) and the proportion spent on imports.[4] Moreover, as noted in Section 2.3, it makes reducing fiscal vulnerabilities more difficult.

5.2 Financial market risks

High valuations of risk-bearing financial assets in an uncertain environment

The possibility of sudden, sharp corrections to high stock market valuations worldwide remains a high risk. As mentioned in Chapter 4, despite the geopolitical and economic uncertainty, financial market volatility is still contained and risk premia are low, all of which drives up valuations of risk-bearing assets. In particular, price-to-earnings (P/E) ratios are close to the 75th percentile of the historical distribution in the euro area and well above this level for the US market overall (Chart 5.3). The higher valuations on the US stock markets are

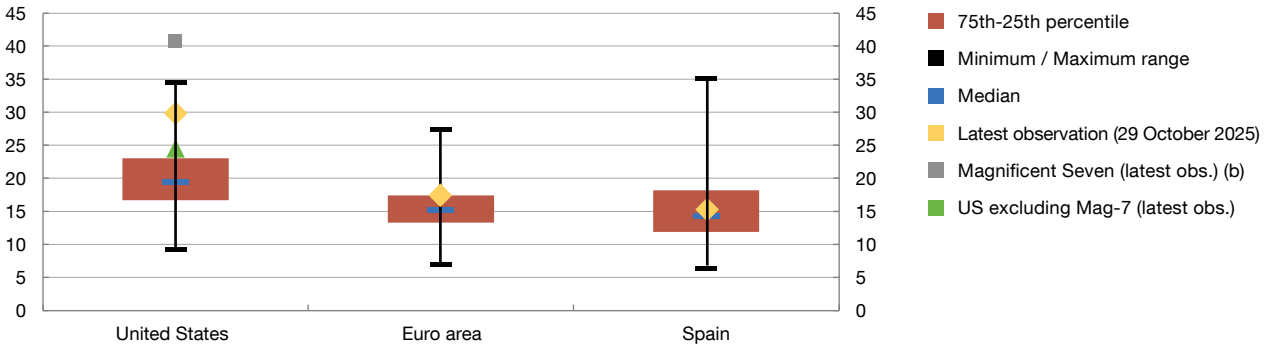
3 For example, in the case of oil, the Iran-Israel conflict in mid-June drove oil prices up from $65 to almost $80 per Brent barrel, but the effects were temporary and faded once the conflict ended, assisted also by downward revisions to global demand and higher OPEC production. Recently, following the announcement in October of US sanctions on Russia's two major oil companies, oil prices have risen again.

4 Banco de España. (2025). "Macroeconomic projections and quarterly report on the Spanish economy. June 2025".

Chart 5.3

Stock market P/E ratios remain high by historical standards, especially in the United States and for the "Magnificent Seven"

5.3.a Stock market P/E ratios (a)



SOURCES: Banco de España, LSEG Datastream and Bloomberg Data License. Latest observation: 29 October 2025.

a US P/E data refer to the S&P 500 index, while the P/E data for the euro area and Spain are calculated by Datastream drawing on euro area and Spanish stock market indices. Daily data since January 1985 (January 1987 for Spain).
b Amazon, Apple, Google, Meta, Microsoft, Nvidia and Tesla.

largely explained by a small group of big technology and artificial intelligence (AI) firms – the "Magnificent Seven" – which account for a very high share of total market capitalisation. Excluding these firms, the P/E ratios for the US S&P 500 index would be considerably lower, close to the 75th percentile.

The risk of sharp surges in corporate bond risk premia also remains, particularly in the high-yield segment. On the corporate bond markets, spreads are generally below their historical median, both in the euro area and in the United States (Chart 4.10). These corporate risk premia are particularly low by historical standards in the high-yield segment.

Current valuations may be vulnerable to corrections if they incorporate overly optimistic expectations about macroeconomic developments or corporate earnings. A less favourable news flow could reignite financial tensions and trigger both a spike in volatility and sudden, sharp corrections in stock prices and risk premia. Moreover, highly-leveraged non-bank financial intermediaries with tight liquidity positions – particularly international open-ended funds and hedge funds – could amplify these stock market corrections (see Section 3.2 of this report).

Systemic importance of the tech and AI sector

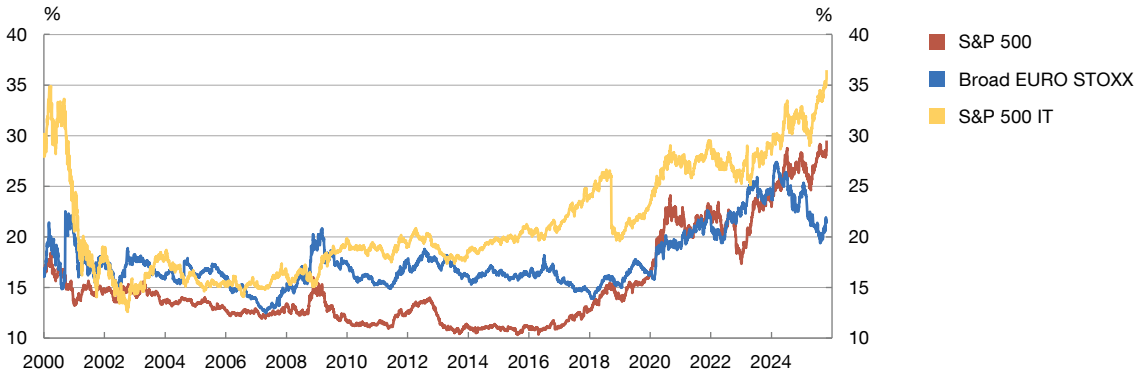
Stock market concentration among a small group of firms has increased significantly in recent years and is at historically high levels. This is particularly true in the United States (Chart 5.4) owing to the weight of certain big tech and AI firms.[5] Although stock market

5 At the cut-off date for this report, the market cap of the "Magnificent Seven" stocks amounted to 37% of the total market cap of the S&P 500 index.

Chart 5.4

Stock market concentration has increased in recent years and is particularly high in the United States and among tech stocks

5.4.a Stock market concentration (a)



SOURCE: LSEG Datastream and Bloomberg. Latest observation: 29 October 2025.

a For the S&P 500 and EURO STOXX, the data refer to the market cap of the largest five stocks in each index at each point in time as a proportion of the total market cap of the indices. For the S&P 500 IT (Information Technology) index, the data refer to the market cap of the S&P 500 IT stocks as a proportion of the total market cap of the S&P 500 index.

concentration is somewhat less marked in the EURO STOXX, larger firms also account for a significant part of the index.[6]

Potential valuation corrections among US tech firms and their high stock market weight continue to pose an additional market risk factor. These firms have consistently surprised on the upside, underpinned by growing demand for the services they provide, and their high market valuations reflect expectations of their continuing strong performance in the future. But these favourable expectations may not be met if certain risks materialise, such as the emergence of new competitors, loss of business owing to technological change, potential global supply chain difficulties or regulatory change.

European financial markets are not immune to concentration risks. Concentration is also high in European markets by historical standards, albeit to a much lesser extent than in the United States. In addition, European markets are also exposed to US concentration risk through global corporate interconnectedness or the impact of a potential US stock market correction on global financial conditions.

Sovereign debt valuations

Sovereign risk premia may rise if markets become more concerned about the fiscal position of some economies. So far, the deterioration in the fiscal position of some

6 In Europe, the Dutch tech firm ASML has the highest market cap in the EURO STOXX index, but among the leading stocks there is a smaller proportion of tech firms and a greater presence of industrial, fashion and pharmaceutical sector stocks.

advanced economies has had a limited impact on sovereign debt premia, but a sharper uptick cannot be ruled out if investors become more risk averse or the fiscal outlook worsens further.

Possible impacts of financial market risks

A potential financial market correction, even if owing to external factors, would have a significant impact on the Spanish economy. As indicated in previous editions of this report, tighter global financial conditions would adversely affect the Spanish economy through both real and financial channels. This tightening could have a greater impact in Spain through the cost of government debt issuance, considering the current high government debt-to-GDP ratio. The Spanish financial sector would also be adversely affected by the higher cost of wholesale funding. In addition, borrowing costs for households and non-financial corporations (NFCs) would rise as the increased cost of financial market funding fed through to bank credit. All these factors would also have a negative impact on economic activity.

5.3 Other macroeconomic risks

Risks to activity and inflation not linked to geopolitical tensions or financial market developments are contained. However, materialisation of these risks could curb economic activity and tighten financial conditions, albeit to a lesser extent than the shocks discussed in Sections 5.1 and 5.2 above. This section begins with a brief overview of the outlook for growth and inflation, followed by an analysis of these other risks.

Lower global growth in 2026 and slower disinflation

The global economy was more resilient than expected in 2025 H1, despite rising economic policy uncertainty. In the first half of the year, global economic growth outperformed the forecasts published in the wake of the US government's tariff hike announcement in April, prompting improved forecasts for 2025 for many economies, including Spain and the euro area. In some cases, this resilience was the result of temporary factors, such as trade frontloading ahead of the introduction of new tariffs.

Forecasts of public institutions and private sector analysts point to slower economic momentum worldwide in 2026. The disappearance of trade frontloading, along with the permanent effects of the tariff hikes, the persistent uncertainty and its adverse impact on spending decisions, all underpin this expected slowdown in global economic activity in the coming year.

The global disinflation process has lost pace, especially in some advanced economies outside the euro area. Over the summer, inflation rates fell more slowly in most regions and

in some areas, for instance in the United States or the United Kingdom, they have even picked up again, owing to downward stickiness in services inflation and higher energy and food prices.

In this global setting, the Spanish economy continues to post more robust growth than the large euro area economies, although it is expected to lose momentum in the coming quarters. GDP growth has outpaced expectations, underpinned by strong private sector domestic demand, as the contribution of both government consumption and net exports has been broadly neutral. According to the Banco de España's latest projection exercise,[7] GDP will grow by 2.6% in 2025, down from 3.5% in 2024. The latest review of the 2024 GDP figures published by the National Statistics Institute (INE) entails an upward revision for 2025.[8] In any event, in the coming years, GDP growth is expected to continue to slow, to rates slightly below 2%.

Other risks to economic activity and prices

Growth in activity in Spain faces risks associated with the climate of global uncertainty, even in the absence of severe geopolitical or financial crises. The precautionary decline in private spending could be greater than expected, in Spain and in other countries. In addition, a fall in confidence among some of Spain's main trading partners, such as France or Germany, would have a negative impact on external demand.

When assessing the risks to Spanish economic activity it is important to consider the weight of services in its composition. In particular, tourism services account for a high share of GDP (12.3% in 2023, the latest INE figure available) and shocks to global tourism preferences or cyclical demand swings could dampen output growth. Tourism services would also be vulnerable to a deterioration in international economic relations and to the spread of certain military conflicts (risks discussed in Sections 5.1 and 5.2 above).

The vulnerabilities of public finances in Spain and in other advanced economies pose downside risks to growth. The extent to which these vulnerabilities may increase the impact of geopolitical and financial market risks has been analysed in Sections 5.1 and 5.2. However, they may also undermine GDP growth through an erosion of confidence and fiscal policy tightening if agents perceive a deterioration in the sustainability of public finances, which could potentially be triggered by a wide range of cyclical and structural shocks apart from those analysed in Sections 5.1 and 5.2 above.

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7 Banco de España. (2025). "Macroeconomic projections and quarterly report on the Spanish economy. September 2025".

8 The statistical review published by the INE on 19 September revised up the GDP growth rate for 2024 to 3.5%, from 3.2% which was the figure available at the cut-off date for the September projections. The INE also revised up the quarter-on-quarter growth rates for 2025 Q1 and Q2. These revisions to the national accounts automatically entail an upward revision of the GDP growth rate for 2025 compared with the 2.6% envisaged in the Banco de España's September projections.

At the global level, an entrenched slowdown in disinflation could prompt higher interest rates. The probability of rate rises currently appears to be contained, and in the United States in particular expectations have even swung towards policy rate cuts. Nevertheless, this is still a macroeconomic risk which, were it to materialise, would prompt some tightening of global financial conditions.

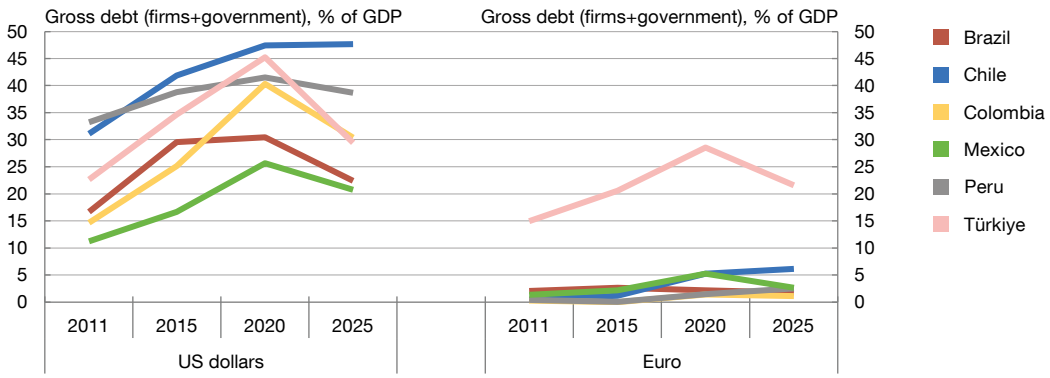
Risks linked to emerging market economies

The Spanish banking sector has a significant presence in some emerging market economies identified as having risks associated with fiscal and external imbalances and heavy reliance on foreign currency funding. Some of these economies have high

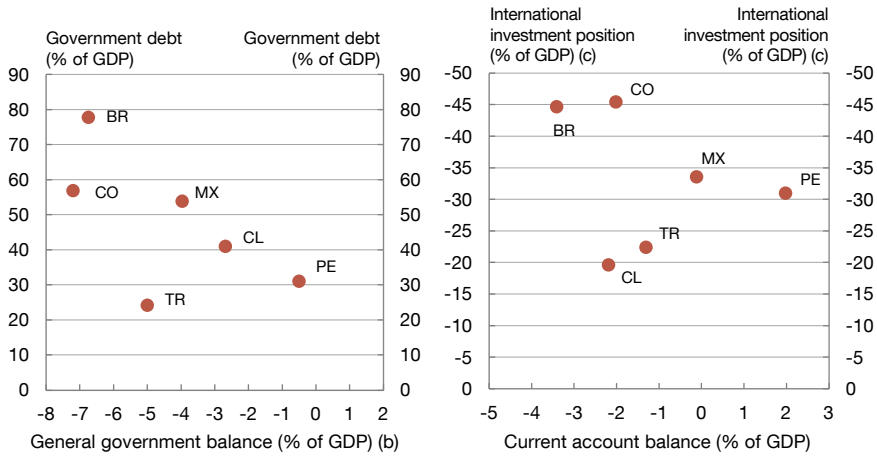
Chart 5.5

Some emerging market economies with fiscal and external vulnerabilities could be particularly affected by a possible dollar appreciation

5.5.a Gross foreign currency debt of firms and general government, by currency



5.5.b Vulnerability indicators: 2025 Q2 (a)



SOURCES: Institute of International Finance and Dealogic. Latest observation: 2025 Q2.

a BR: Brazil; CL: Chile; CO: Colombia; MX: Mexico; PE: Peru; and TR: Türkiye.
b General government surplus (+) or deficit (-) as a percentage of GDP.
c External assets less external liabilities (stocks) as a percentage of GDP (inverted scale).

levels of domestic and external debt denominated in foreign currencies, mainly in US dollars and to a lesser extent in euro (Chart 5.5a). This renders them vulnerable to a brusque depreciation in exchange rates, which could give rise to capital outflows and influence monetary policy conduct, especially in economies such as Colombia or Brazil that have higher fiscal or external imbalances (Chart 5.5b).

5.4 Emerging risks

Cyber risks

In a setting of growing exposure to significant cyber incidents,[9] managing cyber risks is a priority for the financial sector. Indeed, drawing on supervisory information and meetings with external analysts (see Box 5.1), these incidents are considered one of the main emerging threats.

However, although their capacity to disrupt operations is high, whether cyber incidents might cause long-lasting damage to financial stability is less certain. As discussed in more detail in Chapter 5 of *the Financial Stability Report, Spring 2025,* the most plausible way in which they could do so would be by triggering a widespread liquidity crisis, caused by abrupt withdrawals of funds owing to a loss of confidence following a serious, severe and long-lasting operational incident with systemic impact. Yet even in such a scenario, technological countermeasures, supervisory coordination mechanisms and potential liquidity provision by monetary authorities would mitigate their effects.

Technological advances and the use of cyber attacks as a geopolitical tool can alter the importance of these risks for financial stability. Advances in AI and quantum computing could pave the way for new forms of cyber attacks, but also for more sophisticated defence mechanisms. If cyber attacks were to become more of a threat, the risks to financial stability would increase. Meanwhile, the growing entrenchment of a divided world order could foment geopolitically motivated cyber attacks, with greater potential for disruption than cyber crime.

Crypto-assets and stablecoins

The rapid expansion of crypto-asset markets poses important challenges for financial stability, especially against a backdrop of growing interconnectedness between crypto-assets and the traditional financial system. Although these markets remain relatively small in size, the rapid expansion and inherent volatility of crypto-assets – particularly those not backed by traditional financial instruments – could amplify financial market crisis

9 The Financial Stability Board (FSB) defines cyber incidents as malicious or non-malicious events that compromise the confidentiality, integrity or availability of information or interconnected information systems.

scenarios (see Box 4.1 of *the Financial Stability Report, Spring 2025)*. In this respect, the recent legislative momentum in the United States, which seeks to encourage development of crypto-assets, could heighten such risks by fostering their take-up.

Stablecoins,[10] which by design are pegged to reserve assets, pose specific risks in the medium to long term. These risks relate to potential banking disintermediation, large-scale redemption requests and an undermining of the effectiveness of some authorities' monetary policies. Their use as a means of payment or deposit can erode banks' funding bases, disrupting the transmission of monetary policy and generating liquidity tensions in stressed scenarios. A loss of confidence in a stablecoin could trigger large-scale withdrawals and potential spillover risks into other crypto-assets or even other traditional financial assets.[11] Moreover, the adoption of stablecoins with foreign currency-denominated reserve assets in a given jurisdiction could diminish the effectiveness of monetary policy in that jurisdiction and increase its exposure to external risks.[12]

Limited progress in regulating stablecoins worldwide may exacerbate these risks. As shown in a recent FSB report,[13] countries have made progress in regulating crypto-asset activities, but progress on global stablecoin arrangements has been slower. The report also reveals significant gaps and inconsistencies in the regulation of crypto-assets that could pose risks to financial stability and the development of a resilient digital asset ecosystem.

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10 Stablecoins (or asset-backed crypto-assets) are backed by a reference asset, such as a currency (e.g. the US dollar) or other type of asset, via stabilisation mechanisms that seek to control their volatility. Issuance of stablecoins is regulated and supervised. This entails compliance with prudential capital and liquidity requirements by their issuers and distinguishes them from non-asset-backed cryptocurrencies which are not subject to similar controls.

11 The European Systemic Risk Board has specifically highlighted the possibility of this risk in the case of third-country multi-issuer stablecoin schemes (see Crypto-assets and decentralised finance), which in turn led to the issuance of Recommendation ESRB/2025/9.

12 Particularly important in this respect are the US crypto-asset initiatives, whose ultimate scope and implementation are yet to be determined and which seek to drive financial innovation and foster US leadership in this market. Developments in these initiatives will likely entail greater exposure to the US dollar for other economies.

13 *Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities*, 16 October 2025.