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

## EXECUTIVE SUMMARY



# 1 EXECUTIVE SUMMARY

Figure 1.1

Agents and markets relevant to financial stability (a)

 <b>HOUSEHOLDS</b>	<ul style="list-style-type: none"> <li> Sound performance of income, employment and wealth</li> <li> Historically low debt and debt burden levels</li> </ul>
 <b>FIRMS</b>	<ul style="list-style-type: none"> <li> Sound performance of profit, albeit uneven across sectors</li> <li> Historically low debt and debt burden levels</li> </ul>
 <b>PUBLIC SECTOR</b>	<ul style="list-style-type: none"> <li> High debt level, although deficit is decreasing</li> <li> Upside risks to government spending (defence, demographics, etc)</li> <li> Lack of specificity in fiscal consolidation plans</li> <li> Fiscal vulnerabilities in global systemically important economies</li> </ul>
 <b>BANKING SECTOR</b>   <b>NON-BANK FINANCIAL SECTOR</b>	<ul style="list-style-type: none"> <li> Bank profitability remains sound</li> <li> Spread narrowing between asset and liability interest rates has led to a marked decline in net interest income, which has nevertheless tended to stabilise</li> <li> Bank solvency and liquidity positions are notably above requirements</li> <li> Direct exposure to the Middle East and Asia is limited</li> <li> Lending to households and firms in Spain continues to grow and credit quality has improved</li> </ul> <ul style="list-style-type: none"> <li> Globally, the non-bank financial intermediary (NBFi) sector is vulnerable to corrections in financial market conditions</li> <li> Investment funds domiciled in Spain have a contained risk profile, by historical standards and a European comparison</li> <li> Private credit to firms in Spain and the euro area has grown, but accounts for a small share of their total financing and shows no signs of the fragility observed in this segment in the United States</li> <li> The impact on the NBFi sector of abrupt financial market corrections may also affect European banks via interconnectedness</li> </ul>
 <b>REAL ESTATE MARKET</b>	<ul style="list-style-type: none"> <li> Real house price growth remains high</li> <li> Growth in real estate credit is contained relative to GDP and to the stock of bank loans, and is compatible with low household debt levels</li> <li> Mortgage lending standards have eased slightly, but are still well below their all-time highs</li> <li> Overall, the real estate risks to financial stability remain contained</li> </ul>
 <b>FINANCIAL MARKETS</b>	<ul style="list-style-type: none"> <li> High valuations of risk-bearing assets, which have seen contained and, in some cases, short-lived corrections since the outbreak of the Middle East crisis, despite the ensuing rise in uncertainty</li> <li> Uncertainty surrounding tech sector valuations and a worsening risk perception for private credit</li> <li> As a result of the conflict in the Middle East, European sovereign risk spreads have widened moderately, but with no sign of financial fragmentation in the euro area</li> </ul>

SOURCE: Banco de España.

a The green shields with a tick (red shields with a cross) 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 and/or the impact of the risks to financial stability.

The Autumn 2025 *Financial Stability Report* (FSR) highlighted geopolitical tensions and possible abrupt corrections in financial market valuations as the main risks to financial stability. The onset of the conflict in the Middle East in February reinforced this diagnosis and has had adverse effects, whose scope is still uncertain, on energy markets and supply conditions worldwide. To address this challenge, Spanish households, firms and banks start from a relatively favourable financial situation, although high government debt poses a degree of vulnerability.<sup>1</sup>

### *Households and firms*

In Spain, household income and corporate earnings performed well in 2025 H2, although the pace of growth moderated. Among both households and firms, debt and debt service ratios evolved moderately, remaining around historically low levels. Nevertheless, there are some pockets of greater fragility among lower-income households that need to devote a high percentage of their income to essential expenses. Moreover, in various business sectors the ability to cover financial costs is sensitive to a potential deterioration in profitability and borrowing cost conditions. In any event, overall, the financial vulnerability of households and firms remains low by historical standards.

### *Public sector*

In 2025, Spain's general government deficit fell by 0.8 percentage points (pp) to 2.4% of GDP, compared with a much smaller decline in the euro area. The favourable cyclical position of the Spanish economy, which grew by 2.8% (double the rate of growth in the euro area) made a decisive contribution to this improvement. However, net expenditure rose faster than expected, exceeding both the Government's initial estimates and the limit set in the Medium-Term Fiscal-Structural Plan (MTP).<sup>2</sup>

Following improvements in recent years, Spain's fiscal position has moved closer to its pre-pandemic level. Nevertheless, at around 100% of GDP, the high level of government debt remains a source of vulnerability for the Spanish economy. This is exacerbated by the persistence of relatively high budget deficits given the cyclical position of the economy, the growing spending needs related to population ageing, defence and the green and digital transitions, and the lack of concrete measures to meet European fiscal commitments.

Although the cost of Spanish government debt remains contained, partly thanks to favourable financial market conditions, this situation could reverse. First, a vulnerable fiscal position may

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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.

2 The MTP is the main medium-term fiscal planning tool under the new economic governance framework approved by the European Union in 2024. Each Member State has to produce a medium-term plan at least every four years and an annual monitoring report on fiscal and economic policy commitments.

render the cost of Spanish general government debt more sensitive to a potential deterioration in public financing conditions worldwide. The unfavourable fiscal position of systemic economies such as the United States and France and the increase in geopolitical risks make such scenarios more relevant. Second, if medium and long-term spending pressures are not balanced by offsetting measures, the consequent worsening of Spain's government deficit and debt could also drive up investors' required returns.

### *Banking sector*

The financial position of the Spanish banking sector remained favourable in 2025. Consolidated sector profit rose by 6%, giving a return on assets (ROA) of 0.95% and a return on equity (ROE) of 14.3%. Both these metrics increased compared with 2024, but more moderately than in previous years.

Net interest income fell in year-on-year terms, although the pace of decline moderated over the course of the year. As the pass-through of the 2024-25 monetary policy rate cuts came to an end, their negative impact on net interest income eased. Over the coming quarters, net interest income will depend more on the monetary policy response to the impact the geopolitical environment has on inflation.

The decrease in net interest income was offset by other income statement items, notably the growth in net fees and commissions and in other operating income. In the latter, the reduction in hyperinflation adjustments in some business abroad (Argentina and Türkiye) played an important role, a contribution that cannot be expected to be recurring. The profitability of the main listed banks continued to grow in 2026 Q1.

In keeping with this higher profitability, Spanish banking sector solvency strengthened in 2025. The Common Equity Tier 1 (CET1) ratio increased by 0.5 pp to 13.9%.<sup>3</sup> However, despite this improvement, Spanish banks' capital ratios remained below the European average, although the gap narrowed somewhat in the year. In addition, the gap is smaller in terms of voluntary capital, i.e. that held by banks in excess of prudential capital requirements. The leverage ratio held stable at 5.7% and remains at similar levels to those of the main European banking systems.<sup>4</sup>

The consolidated balance sheet continued to expand in 2025, with assets growing by 4.7%, in line with the previous year. Spanish banks have limited direct exposure to the Middle East and Asia (a region that could be particularly hard hit by rising energy prices and supply constraints).

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<sup>3</sup> 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 (such as 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.

<sup>4</sup> The leverage ratio is defined as Tier 1 capital (CET1 capital plus additional Tier 1 capital) divided by the sum of on and off-balance sheet assets, not risk-weighted (see footnote 3).

Bank lending accelerated in Spain in 2025. Lending to households, firms and the self-employed rose by 3.6% year-on-year (compared with 0.8% in 2024). This growth was strongest in the household segment, thanks to the robust labour market and stabilising interest rates. Credit quality continued to improve. The stock of non-performing loans (NPLs)<sup>5</sup> and stage 2 loans<sup>6</sup> declined significantly in 2025, and the NPL ratio fell to 2.8% and the stage 2 ratio to 5.8%.

Regarding financing conditions, the average cost of bank liabilities continued to fall in 2025 H2, to around 2.6% at consolidated level. Meanwhile, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) remained at comfortable levels – 170.4% and 134.7%, respectively – well above the regulatory minimums and in line with or above the European averages.

### *Non-bank financial sector*

The non-bank financial intermediary (NBFi) sector<sup>7</sup> represented around one-third of total financial assets in Spain at the end of 2025 Q3, compared with 60% in the euro area. Over the year it continued to contribute to asset growth in the Spanish financial system, albeit to a lesser extent than the banking sector.

Within the Spanish NBFi sector, investment funds were again the main growth driver in 2025, although their contribution moderated compared with previous years. Spanish funds maintained a contained risk profile, both by historical standards and compared with the euro area as a whole, with low leverage levels, stable liquidity ratios, no significant use of derivatives and low settlement risk.

In the recent period the international setting has been marked by tensions in private credit to business in the United States,<sup>8</sup> where investor confidence in this area has been undermined by various episodes of insolvency, fraud and liquidity constraints. In Spain and in the euro area overall, private credit accounts for a limited but growing share of lending to firms, with no significantly higher risk profile detected among those that use it. This growth is largely driven by the readiness of US and other non-euro area intermediaries to provide credit.

Beyond private credit, global concerns persist about open-ended investment funds, hedge funds and other NBFIs, which take on more risk relative to their leverage and liquidity and may amplify financial market corrections. In particular, these intermediaries may be obliged to make forced sales to cover increased liquidity needs in adverse market scenarios, thus exerting downward pressure on market valuations.

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5 NPLs 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 Loans that are not “non-performing” but that show signs of impairment in the debtor’s financial position or in the loan’s credit quality are classified as stage 2 loans.

7 This sector includes, among other NBFIs, money market funds, non-monetary investment funds, insurance companies and pension funds.

8 Private credit refers to non-bank lending, for instance by specialist investment funds.

From a systemic standpoint, in general Spanish banks' direct interconnectedness with the NBFIs sector continued to account for less than 10% of the balance sheet, with higher exposures at the larger banks. Indirect interconnectedness through common holdings of securities has risen continuously since 2019. In Spain, domestic sovereign debt accounts for a larger proportion of these common holdings, while in the euro area they are more diversified, with a greater share of corporate debt. Overall, although interconnectedness has increased, the Spanish banking sector's exposure to the NBFIs sector remains contained.

### *Real estate market*

The number of house purchases remained high in 2025, reaching almost 750,000 units, although recent developments point to some stabilisation. Meanwhile, the pace of house price growth accelerated, up to 12.7% in nominal terms (9.7% in real terms). Regional differences in house prices also increased, with higher cumulative growth in higher-priced provinces and modest or no growth in lower-priced ones. This contrasts with price behaviour in the property boom before the global financial crisis, when price rises were more widespread across provinces.

These market developments were driven by a combination of buoyant demand and rigid supply, with the pace of housebuilding well below that of net household formation. In this setting, second-hand housing accounted for 90% of house purchases. All these factors exacerbate the problem of housing affordability in Spain.

Real house prices have continued to grow relative to household income and interest rates. This decoupling, which has intensified since 2024, explains the increased stress in house price indicators, which are, however, still around 2004 levels and well below the peaks observed in the run-up to the 2008 financial crisis.

New mortgage credit recorded strong growth in 2025, but it is still moderate as a proportion of GDP and total bank credit. The stock of mortgage lending continues to increase gradually, although by historical standards it also remains low in relation to economic activity. Bank financing to the construction and real estate sector continued along the recovery path observed in 2024, albeit from levels close to all-time lows.

Lending standards for new mortgages relative to borrower income and collateral value remain contained and well below those observed in previous upturns, despite a modest increase in more highly leveraged transactions. Loan-to-price and loan-to-income ratios rose only slightly in the year, while debt service burdens remained contained, significantly below their all-time highs.

Overall, the composite housing market risk indicator, which takes a broad view of the various supply and demand factors affecting the sector, remains contained, at levels similar to those of the early 2000s. This is due to households' sound financial situation, prudent mortgage lending standards and low property development and construction activity.

## *Financial markets*

From autumn 2025 to February 2026 global financial markets continued to enjoy highly favourable conditions. The geopolitical shock associated with the start of the Iran war in late February brought that to an end, although during March the impacts were contained and, since the ceasefire announcement in April, the effects have dissipated to varying degrees across the different asset classes.

As regards monetary policy, the European Central Bank (ECB) held its deposit facility rate at 2.0%,<sup>9</sup> while between September and December 2025 the Federal Reserve System cut its federal funds rate by 75 basis points (bp), to a range of 3.5%-3.75%, in an environment of heightened economic uncertainty. Following the start of the conflict in the Middle East, policy rate expectations have been revised up in both economies, especially in the euro area.

In sovereign debt markets, the conflict prompted broad-based yield spikes and a flattening of yield curves, reflecting both inflationary risk and the expectation that the hostilities would be short-lived. Sovereign spreads in Europe widened moderately, with no significant sign of fragmentation.

In equity markets, volatility increased markedly, albeit to levels significantly below all-time highs, and then fell back to pre-conflict levels following the ceasefire announcement. European stock markets reacted more negatively to the conflict than their US counterparts, prompting a reversal of their previous better performance. By contrast, corporate bond markets saw a very modest response, both in the investment grade and high-yield segments, in the United States and in Europe alike.

In the foreign exchange markets, the dollar appreciated temporarily in March and then partially recovered its role as a safe-haven asset, benefiting also from the rise in oil prices. Meanwhile, despite its earlier strength, gold lost some of its attractiveness following the outbreak of the conflict. Lastly, emerging markets, which had been highly resilient, have seen some deterioration in financial conditions since February and risk aversion has increased.

## *Risks*

Global geopolitical tensions have escalated sharply, with the conflict in the Middle East the main focus of risk.<sup>10</sup> The start of the hostilities in February has prompted a considerable surge

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<sup>9</sup> The ECB's deposit facility rate is the interest rate that financial institutions receive for depositing their excess liquidity with the national central bank overnight. It is a key monetary policy instrument that sets the lower bound (floor) for overnight market interest rates.

<sup>10</sup> Risks are identified in this report as adverse changes (with 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.

in what were already high levels of global economic uncertainty. This heightened uncertainty particularly affects energy prices and inflation.

The conflict has had an especially severe impact on energy markets. Since the attacks began, oil and natural gas prices have risen in Europe, with increases of around 84% and 92%, respectively, in the second half of March. These price rises subsequently eased, especially after the ceasefire announcement, but volatility has remained high and has recently picked up again, with oil prices exceeding their March levels. In particular, it seems, because of the severe restrictions on passage through the Strait of Hormuz. Although futures markets anticipate a gradual decline in energy prices, expectations for subsequent years – especially 2026 – remain clearly above pre-conflict levels.

The extent of the energy shock stems from the scale of the supply potentially affected. Under normal conditions, around 20% of the world's oil and global liquefied natural gas exports pass through the Strait of Hormuz, while oil production in the Persian Gulf region as a whole accounts for around 30% of the total worldwide. The conflict has halted production of approximately 10 million barrels of oil per day, some 10% of global supply before the conflict began. This is a higher proportion than that affected after Russia's invasion of Ukraine in 2022 and is more difficult to replace owing to the physical supply blockade.

This situation may have persistent effects on energy supply, as resuming production takes time and, in some cases, prolonged oil-extraction disruption can permanently reduce recoverable volumes. Moreover, the damage to energy infrastructure already caused by the conflict, and any potential further damage, will exacerbate these persistent effects.

The conflict also poses broader risks to global value chains. A substantial proportion of the world's fertiliser trade passes through the Strait of Hormuz, as do critical supplies of helium and neon that are essential for semiconductor manufacturing. Also notable are the indirect effects of the disruption of strategic shipping routes and higher fuel prices, which could drive up the transport and production costs of many sectors worldwide.

The mitigation measures taken so far, such as the release of strategic oil reserves and the introduction of fiscal subsidies, have only partially cushioned the impact of the shock. Nevertheless, these measures are limited relative to the scale of production affected, and should the fiscal policy measures remain in place, government debt, which is already high, could increase further.

High uncertainty surrounding US trade policy also contributes to geopolitical risks. The Supreme Court ruling limiting the use of certain tariff instruments has given rise to a temporary general tariff framework that coexists with various previously established sectoral measures. The average tariff level has decreased following the ruling, albeit unevenly across geographical areas, with a negligible tariff cut for the euro area. However, the lack of clarity about a possible extension of the timeframe or any new measures that could be adopted drives up uncertainty for exporters and hampers medium-term global supply chain planning.

More generally, the deterioration in multilateral cooperation renders global economic policy less predictable and reduces the likelihood of coordinated responses to future crises.

Both the Spanish economy and the euro area economy overall have a high level of trade openness and energy dependence. However, under the baseline scenario, the macroeconomic impact of the current geopolitical crisis is expected to be limited. It could reduce banks' profitability to some extent, but it would have no significant effect on banking sector solvency. Under adverse scenarios in which the hostilities in the Middle East and the associated energy shock prove more severe and protracted, GDP decreases and both inflation and interest rates rise above the levels envisaged in the macroeconomic projections.

With this in mind, this report examines alternative, low probability but plausible scenarios to assess the risks to financial stability and, in particular, to banking sector resilience posed by the conflict in the Middle East. As was the case in the severe energy crises witnessed in the second half of the 20th century, the solvency of the Spanish banking sector overall is notably resilient under scenarios of surging prices of oil and other energy inputs. However, under such scenarios, the sector's profit-generating capacity is very low compared with the baseline scenario, and lending to households and firms slows significantly.

Despite a modest initial correction following the outbreak of the conflict, financial market conditions remain sound, although the risk of abrupt and sharp valuation adjustments appears to have increased owing to the heightened uncertainty. In particular, equity and corporate bond market valuations are high, underpinned by optimistic earnings forecasts that could fail to materialise should the macroeconomic outlook deteriorate or key sectors of activity be hit by specific shocks.

In this respect, developments in artificial intelligence (AI) technologies pose significant market risks, primarily owing to their disruptive nature, as they may render some business models obsolete. Indeed, financial markets have recently penalised certain sectors, for instance software development services, that are perceived as being most exposed to this disruption. Moreover, AI firms themselves face risks associated, inter alia, with the level of competition in the sector, the effect of geopolitical fragmentation and the doubts regarding the extent to which the expectations of productivity gains associated with this technology will be met. The conflict in the Middle East may adversely affect the AI sector by disrupting the supply of semiconductors and driving up energy costs. The high energy intensity of this technology is a significant vulnerability factor.

As mentioned above, private credit presents additional vulnerabilities, with recent business insolvencies and also liquidity stress in some specialist funds that could amplify financial shocks. Sovereign debt could also be affected by the fiscal deterioration associated with lower growth and the energy crisis, especially in economies whose fiscal positions are already fragile.

Other risks are also identified relating to the composition of growth in Spain, fiscal vulnerabilities and the potential negative medium-term effects of housing affordability problems on growth.

In addition to emerging risks, such as cyber risks<sup>11</sup> and others linked to the transition to a more digitalised financial system and the rise of crypto-asset markets (for instance, global stablecoin expansion).

In the field of cyber security, in particular, recent advances in AI could already be increasing risks, by making it easier and much quicker to identify and exploit cyber vulnerabilities, with potentially adverse effects for financial stability. Advances in quantum computing, which may have a disruptive effect on current cryptographic techniques, also pose an emerging risk to financial stability, albeit one that is less immediate than the AI-linked risks.

### *Macroprudential policy*

The composite indicator for monitoring cyclical systemic risk in Spain was slightly lower at year-end than in mid-2025, although the indicator and each of its subcomponents – macroeconomic, macro-financial, banking and financial markets – remained at an intermediate level.

This endorses the decision adopted in October 2025 to raise the countercyclical capital buffer (CCyB) from the 0.5% currently required to 1% (required from October 2026), a decision consistent with the methodology for setting the CCyB published by the Banco de España.<sup>12</sup> The preliminary information available for 2026 indicates no change in the cyclical systemic risk assessment, which justifies maintaining the decision to strengthen the buffer. In any event, the Banco de España monitors all new information relevant to setting the CCyB as and when it becomes available.

The Banco de España has also continued to develop the methodological framework for assessment of the use of borrower-based measures to tighten mortgage lending standards. Analyses under way show that these measures can enhance the financial resilience of households and banks and can significantly reduce the rate of mortgage defaults among households, especially in the case of mortgages granted in expansionary phases of the cycle.

However, these measures may also have side effects, especially on housing affordability, rental costs and household consumption, with an uneven impact on different population groups. Accordingly, if they are adopted, careful calibration and flexibility are essential, to maximise the benefits in terms of financial stability while minimising the side effects.

The cut-off date for this report is 29 April 2026.

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<sup>11</sup> Cyber risks refer to the risk of cyber incidents occurring and their impact. Cyber incidents are events that compromise the confidentiality, integrity or availability of information and/or information systems. They may be malicious or accidental.

<sup>12</sup> [Revision of the framework for setting the countercyclical capital buffer in Spain.](#)

