PRESS RELEASE

JANUARY 2020 CNMV FINANCIAL STABILITY NOTE

24 February 2020

- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis.

- The Spanish financial market stress indicator stands at 0.18, (well below the mark of 0,27 which separates the area of low stress from that of medium stress. It has followed a downward trend since October 2019.

The Spanish National Securities Market Commission (CNMV) has published the January 2020 Financial Stability Note, according to which the stress level in the Spanish financial markets was 0.18[1] at the close of this report, a lower figure than that registered in the last report corresponding to October 2019, when the indicator bordered between a low and a medium stress level (0.27). Within this trend, a slight increase in stress at the end of January probably reflected an increase in uncertainty related to the coronavirus outbreak initially detected in the Chinese city of Wuhan, an event which also affected other financial markets but which has not led to a change in the trend of the indicator. As in previous quarters, the highest levels of stress were recorded in the financial intermediaries and debt segments, with transitory resurgences being observed in other less relevant segments of the total index. The correlation of stress levels between the different components of the indicator remains low in historical terms.

[1] The closing date of this note is 31 January, with the exception of the stress indicator, which covers up to 7 February and some specific information.

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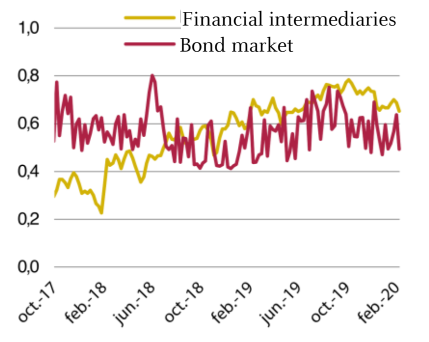
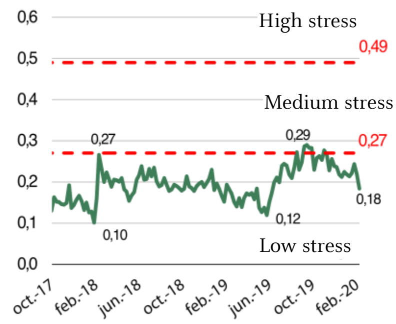
Stress indicators in the financial intermediary and bond segments



Total stress indicator



The note describes a Spanish macroeconomic context marked by a path of deceleration in activity that is also being transferred to the rate of job creation (GDP grew by 2% in 2019, four tenths of a percentage point less than in 2018). This slowdown will continue this year and will be more intense than in the euro zone, where expectations have improved in countries such as Germany and Italy and, accordingly, the growth differential will narrow to 0.3 b.p. With the formation of government in Spain at the beginning of the year, some sources of uncertainty have been mitigated but other remain, such as the high level of unemployment, the challenges posed by the ageing population, the difficulties of the banking sector to raise its profit margins or the existence of sectors or stakeholders that are financially vulnerable.

The domestic financial markets registered increases in share prices and in the returns on debt assets in the latter part of last year. The former were, in general, lower than those recorded in other European benchmarks, behaving differently among sectors, and even among the companies that make them up. Among the companies that increased their value, cyclical and energy-related companies stood out, while those that experienced decreases in value included real estate companies and banks (although not all of them). The returns on debt assets, which had fallen for much of the year as the new direction of monetary policy became known, rose at the end of the year due to improved expectations of European activity and the lessening of some uncertainties. The first weeks of the year have been marked by the uncertainty surrounding the coronavirus that led to declines in stock markets of close to 2% in January (which were completely reversed in the first few days of February) and in the yields on long-term debt assets.

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As in previous editions, the most relevant financial risks continue to include market and liquidity risk, particularly in debt assets, but other risks are also mentioned that may eventually have implications in terms of financial stability, such as those related to cybersecurity. Market and liquidity risks are particularly significant in the case of higher-risk assets, as their risk premiums would rise further in the event of an increase in uncertainty or a significant decline in economic activity. Moreover, it would affect more severely the most indebted stakeholders and those most exposed to complex illiquid assets and longer maturities.

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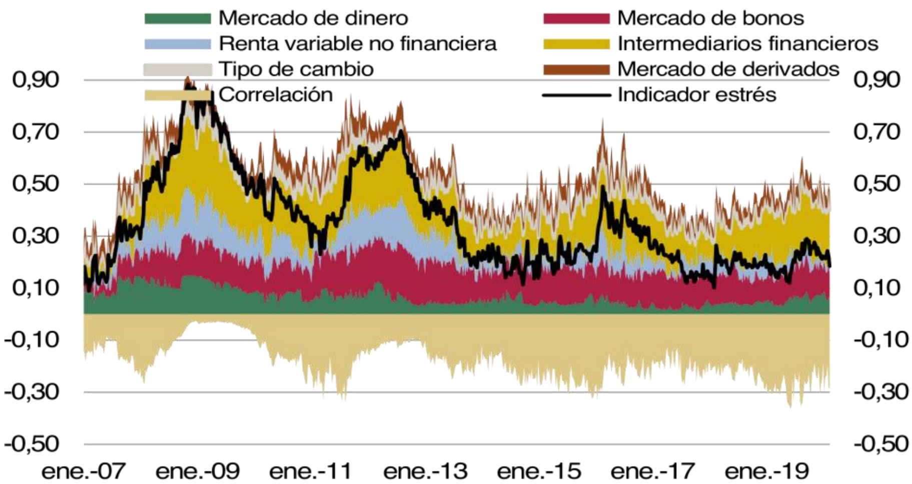
The Financial Stability Note presents a broad set of indicators, including most notably the Spanish financial market stress indicator and what are known as colour maps (also known as heat maps). The first provides a real-time measure of systemic risk in the Spanish financial system, which ranges from 0 to 1 and is obtained as a weighted aggregation of the estimated stress levels in the following six segments: equity, fixed-income instruments, financial intermediaries, money markets, derivatives and foreign exchange markets (from 2002 until the onset of the crisis in 2008 the benchmark ranged from 0.09 to 0.37, reached historical highs in 2008 (0.88) and in 2012 (0.71) and then declined again with minor upturns in 2016 (0.49). Heat maps allow us to visualise the changes witnessed in the various risk categories.

The Spanish financial markets stress indicator



Complete document: [Financial Stability Note No.13 January 2020]

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