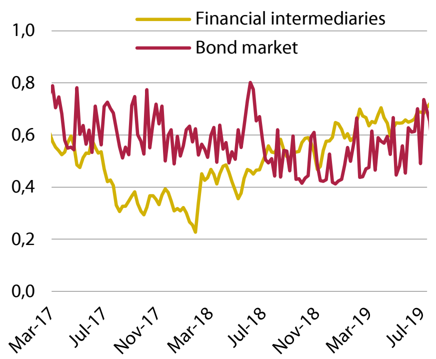
DRAFT PRESS RELEASE

JULY 2019 FINANCIAL STABILITY NOTE

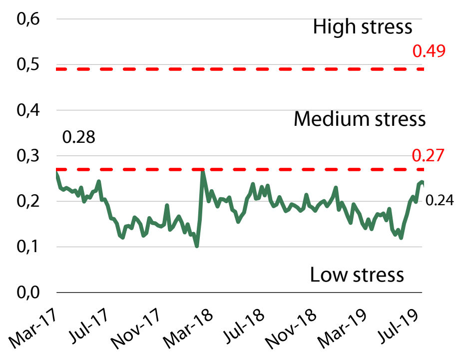
26 July 2019

The Spanish National Securities Market Commission (CNMV) has published the [July 2019 Financial Stability Note](), according to which the stress level of the Spanish financial markets has increased to 0.24 points, a value that implies a low level of stress but is very close to the threshold between low stress and medium stress. This level is compatible with the relatively high figures in some segments (due to the low correlation between segments) and, in particular, in the financial intermediary and debt segments, which stand at around 0.7 points (high stress), mainly due to declines in bank prices and the reaction to recent developments concerning monetary policies.

Stress indicators in the financial intermediary and bond segments



Total stress indicator



The note states that the international macroeconomic context continues to be characterised by a certain slowdown in growth and the persistence of some uncertainties, such as those related with the trade agreement between the US and other economic areas, the geopolitical instability in the Middle East or the final outcome of Brexit. The Spanish economy is also facing this slowdown, but the strength of domestic demand means that its growth continues to be higher than that of the euro zone. This is in line with recent forecasts by the European Commission, which has increased the growth forecast for the Spanish economy from 2.1% to 2.3% for this year. This progression is not exempt from risks, many of which are common to other European economies. However, there are others of a domestic nature, such as,

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ongoing political uncertainties or the high level of indebtedness, albeit declining, of stakeholders.

The largest source of uncertainty in the financial markets surrounds debt and the banking sector. Thus, uncertainties affecting the banking sector persist, and have even increased in a context of rising risks, as reflected in the results for the first quarter characterised by relative weakness. Sector margins are weighed down by a very lax monetary policy, which is expected to continue for some time, hence it is foreseen that the adjustment process (reduction in size and costs) will persist. The sector's solvency continues to be satisfactory, despite less favourable trends, such as the recent lowering of forecasts for the sector's debt by Moody's.

On the other hand, the continuation of an environment of low interest rates supports the risks of stakeholders increasing incentives to borrow, the persistence of strategies searching for yield and the banking sector's difficulties in increasing its margins, while also favouring the most indebted stakeholders by avoiding increases in financial costs.

Finally, with regard to equities, the Ibex 35, which rose by 8.2% in the first quarter of the year (less than the majority of the European indices), only rose slightly in the following months, and its performance may have been affected by the low share prices in the banking sector, as well as internal uncertainties related to parliamentary fragmentation and, accordingly, the future of the economic policy and the reforms to be undertaken. So far this year, this index has risen by 9.2%[1], an increase much lower than that of the European benchmarks, which, in the majority of cases, have increased by more than 17%[2]. Nevertheless, the Ibex 35 liquidity ratio (obtained from the bid-ask spread) remained at satisfactory levels in a context of low volatility in the securities markets.

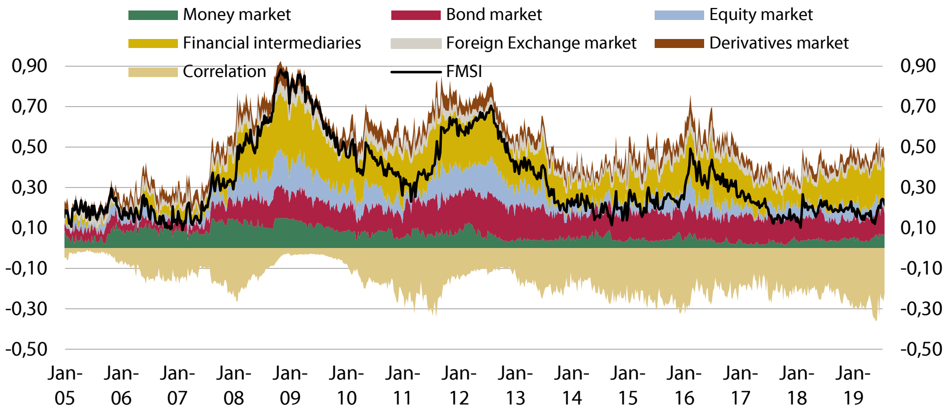
The Financial Stability Note *presents a broad set of indicators, including most notably the Spanish financial market stress indicator and the so-called colour maps (also known as heat maps). The first one provides a real-time measurement of systemic risk in the Spanish*

[1] With data up to 15 July.

[2] The main European indices registered significant gains: 16.7%, the European Eurostoxx 50; 17.3%, the German Dax 30; 17.9%, the French Cac 40; and 21%, the Italian Mib 30.

financial system, ranging from 0 to 1, which is obtained by weighted aggregation of the stress levels estimated in the following six segments: securities, fixed income, financial intermediaries, currency markets, derivatives and the foreign exchange market (from 2002 until the onset of the crisis in 2008 the index 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



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