

## THE FINANCIAL MARKETS STRESS INDICATOR REMAINS LOW, STANDING AT 0.19 POINTS AT THE END OF JANUARY

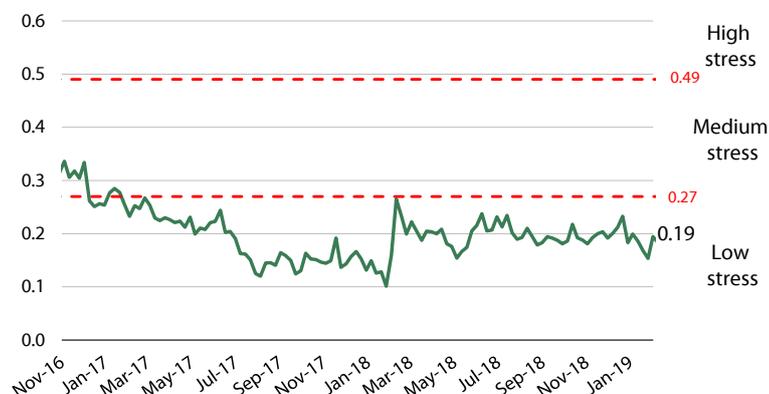
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- There is only an appreciable level of stress in the financial intermediaries and debt segments.
- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis.

The Spanish National Securities Market Commission (CNMV) has published the [January 2019 Financial Stability Note](#), according to which the stress level of the Spanish financial markets remains close to 0.20 points, a value that has fluctuated for almost a year and is considered low.

At the end of January, the stress indicator stood at 0.19 points. The highest stress levels can be observed in the financial intermediary segment (composed mainly of banks) and in the fixed income segment. In the banking sector, the prolonged fall in share prices caused by the uncertainties hanging over the carrying on of the business of these entities, together with occasional increases in volatility, explain the higher level of stress. Liquidity and volatility indicators are responsible for the increase in the fixed income segment.

**Spanish financial markets stress indicator**



The note highlights the current global slowdown, related to trade disagreements, doubts concerning the final outcome of Brexit and the lack of fiscal consolidation in some European countries.

In Spain, this decline is also occurring, but at a slower pace than in the euro area. Thus, the latest IMF forecasts put GDP growth in 2019 at 2.2% (2.5% in 2018), compared with 1.6% in the euro area (1.8% in 2018). The most significant challenges for the Spanish economy continue to be linked to the high level of indebtedness of some sectors, particularly the Public Administrations, the ageing of the population, the difficulties of the banking sector in increasing its profitability, the still high unemployment rate and the degree of parliamentary fragmentation.

The Spanish equity markets, like other markets in our environment, have reflected these uncertainties, which have overshadowed the relatively healthy state of economic activity. Share price trends were particularly unfavourable in the last quarter of 2018 (the Ibex 35 fell by 9%), raising the annual losses of the main index to 15%.

In January there was a significant recovery in share prices (6.1%), which in some cases were at attractive levels following the heavy losses recorded in 2018. However, the market remains highly sensitive to the emergence of information not in line with analysts' expectations. In sectoral terms, it is the banks that are going through the most complex time given the variety of factors that affect (or may affect) the carrying on of their business.

Furthermore, it is important to highlight the various effects that may result from the expected delay in the interest rate increase process in the euro area, in view of the statements made by the ECB. Keeping interest rates at low levels for longer reduces the risk of increased financial costs but preserves the incentives to borrow in an economy with high (albeit declining) debt rates.

It also mitigates the likelihood of short-term impairment of fixed income assets but maintains incentives to invest in riskier assets (search for yield). In this respect, further deterioration of the economic environment could lead to a rebound in credit risk premiums for high yield assets and harm investors in these assets.

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

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*system, ranging from 0 to 1, which is obtained by weighted aggregation of the stress levels estimated in the following six segments: variable income, fixed income, financial intermediaries, currency markets, derivatives and the foreign exchange market. Heat maps allow us to visualise the changes witnessed in the various risk categories.*

Full document: [Financial Stability Note No. 9. January 2019](#)