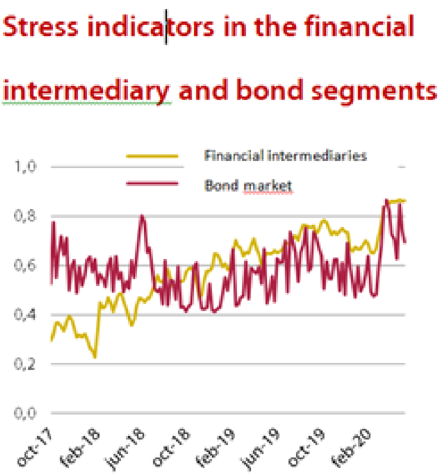
PRESS RELEASE

THE CNMV'S MARKET STRESS INDICATOR REACHES ITS THIRD HIGHEST LEVEL DUE TO THE CORONAVIRUS CRISIS

21 May 2020

- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis.
- Between the end of February and the first few days of May, the stress indicator increased from 0.19 to 0.65, well within the high stress band (above 0.49).
- An increase in the stress level has been observed in all segments of the indicator together with a higher degree of correlation between these.

The Spanish National Securities Market Commission (CNMV) has published the April 2020 Financial Stability Note, which shows that the stress level in the financial system has increased significantly due to the coronavirus crisis. In particular, the indicator increased substantially in March, from 0.19 to 0.56. In April and the first few days of May the upward trend continued, but at a slower pace, standing at 0.65, its third highest level since this indicator was calculated for the first time. This figure represents a high stress level (above 0.49) and is due to increased uncertainty in all segments of the financial system under consideration, which also show a higher degree of correlation among them.



For further information:
CNMV Communications Department
Tel.: 91 5851530 - comunicacion@cnmv.es

The note also highlights the radical change in the macroeconomic context in Spain due to the crisis compared to the slight economic slowdown observed in 2019. The necessary measures of isolation that have been adopted and, accordingly, the halt in much of the economic activity, has immediately resulted in an increase in the number of unemployed and the number of companies at risk of closure. Forecasts of the most relevant institutions indicate that GDP will contract between 7% and 14% this year, the highest figure ever recorded. The final outcome will depend on numerous factors, including most notably the duration of the health crisis, the effectiveness of the measures adopted by the Government and European institutions, the pace and strength of the recovery of the activity in key sectors of the country, such as tourism, and finally, the impact of potential changes to consumption patterns of stakeholders. One of the main economic challenges is to balance the adoption of the measures required to mitigate the crisis with the preservation of the sustainability of public finances in the medium term.

The turmoil witnessed in national financial markets in March moderated in April. Very significant declines in share prices and all-time highs in volatility were observed in equity markets, triggering the adoption of bans on short selling by the CNMV, which were also imposed by other European jurisdictions. These bans, which ended on 18 May, were not renewed. An increase in risk premiums was observed in debt markets, which fell following the different measures adopted by the ECB. The turmoil triggered an increase in net redemptions of investment funds, which, in any event, were dealt with without any significant problems. Specifically, the average estimated redemptions in March-April represented just over 2% of the funds' assets, although these affected certain types of funds to a greater extent, and were concentrated, in particular, in the month of March. The CNMV is currently subjecting management companies with the most exposure to illiquid assets or with a poor credit quality to a special supervision, and is also promoting the use of various tools to manage the liquidity available.

In the current scenario, there are numerous and different in nature sources of risks . Some of these risks have been identified in previous editions of this note and have intensified as a result of the crisis. Worth noting in the political sphere is the uncertainty related to the lack of progress in terms of trade and the difficulties in adopting a common European approach to address the crisis, although in the case of the latter, some progress has been made recently. In the financial field, the main sources of concern are related to liquidity risk and

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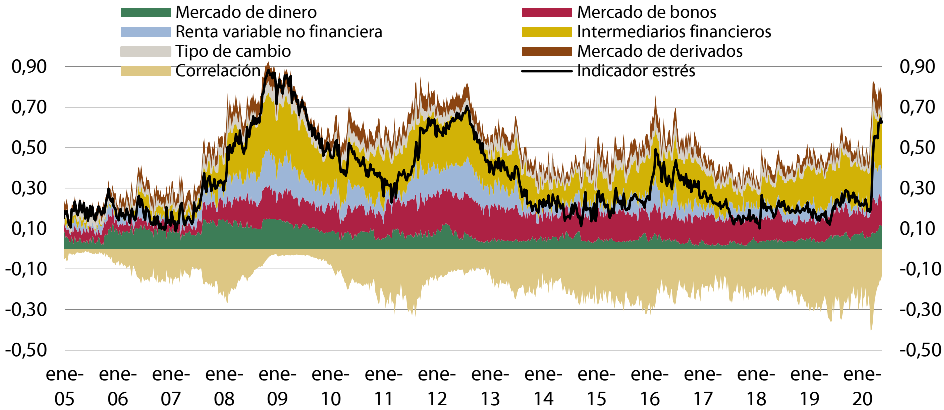
credit risk, including the impact of a significant downgrade in credit ratings issued by credit rating agencies. Operational risks are also of special relevance in this context of increasing off-site tasks.

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 one provides a real-time measurement of systemic risk in the Spanish financial 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.*

The Spanish financial markets stress indicator



Complete document: [Financial Stability Note No.14, April 2020]

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