PRESS RELEASE

THE CNMV PUBLISHES THE OCTOBER 2019 FINANCIAL STABILITY NOTE

22 November 2019

- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis
- The Spanish financial markets stress indicator, which started to increase in June, has consolidated its upward trend, although it still remains at medium-low levels
- The environment of low interest rates continues encouraging Spanish companies to issue fixed-income securities
- Although the IBEX-35 continues to rise, it has been underperforming the majority of European stock exchange indices mainly due its composition

The Spanish National Securities Market Commission (CNMV) has published the October 2019 Financial Stability Note, according to which the stress level of the Spanish financial markets, which seemed to show a slight change in the trend during the middle months of the year due to various uncertainties, has consolidated this trend. While in May the indicator reached a low of 0.12, for various weeks recently it has fluctuated around the limit that separates the low and medium stress levels (latest data, 0.28). This trend is due to the continued high stress level in the financial intermediary and bond segments and to the ad-hoc increase in stress in other segments, which has increased the degree of correlation between the different components of the system.

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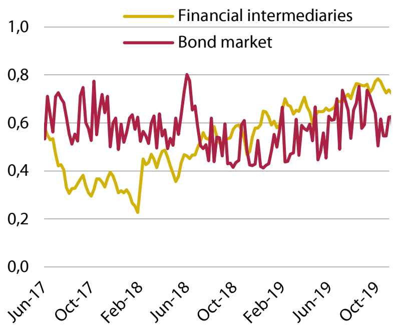
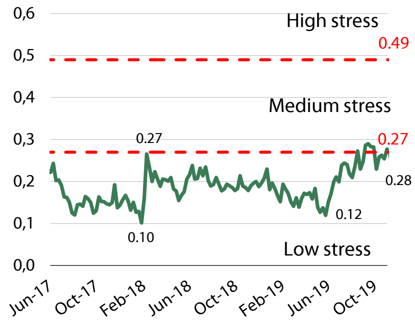
Stress indicators in the financial intermediary and bond segments



Total stress indicator



The note describes a macroeconomic context characterised by the slowdown in the Spanish economy, which is somewhat less intense than in the euro area, and which is due to trade restrictions and other uncertainties, some of which are of a domestic nature. In this context, GDP is expected to increase by 2.1% this year, and between 1.5% and 1.8% next year, with inflation falling and employment increasing, but at a slower pace than in previous periods. One of the most significant challenges for the Spanish economy is related to the need to consolidate public accounts as the deficit has increased slightly compared with last year's figures, and public debt continues at levels close to 100% of GDP.

Spanish financial markets trends (as at 31 October) have been conditioned by this environment and, in particular, by the renewed expansionary stance of monetary policy, which has resulted in a lower for longer interest rate scenario. In the securities markets, the Ibex 35 has risen in the year to date by 8.4%, far below that of other European benchmark indices, which in the majority of cases have risen by around 20%. This difference in the evolution of the Spanish index can be largely explained by its composition, which differs from that of other European indices, but it may also be due to various domestic uncertainties, including most notably the delay in the formation of the government. The downward trend in market trading volumes also continues, with low volatility and a slight deterioration in liquidity.

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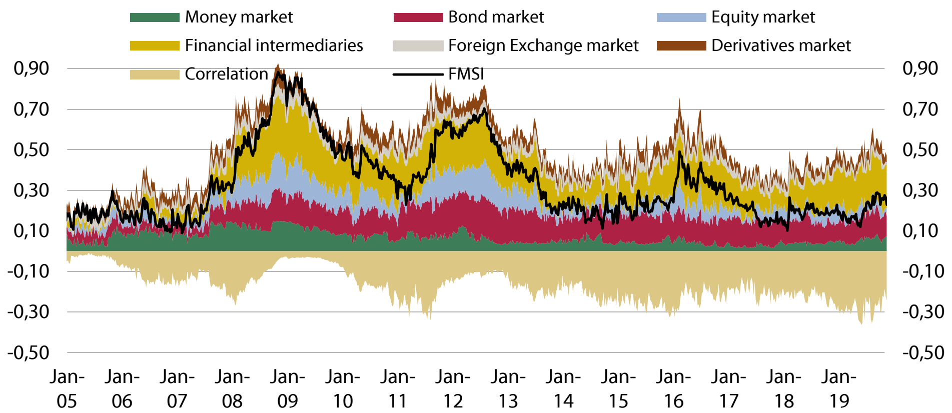
In fixed-income markets, yields continue at very low levels, in many cases at all-time lows, like risk premiums. In the sovereign debt segment, yields up to six years are in negative territory, and the 10-year bond yield closed October at around 0.2%. Noteworthy was the number of fixed-income issues, both those registered with the CNMV (22%) and abroad (11.5%), a trend that is mainly due to entities' desire to take advantage of favourable market financing conditions.

As in previous editions, the existence of certain levels of market and liquidity risks is highlighted, particularly in fixed-income assets. These risks have increased due to the continuation of an environment of low interest rates over time, which, moreover, is supporting strategies with which to search for yield and borrowing, although they also have positive effects on financing costs of the most indebted stakeholders and, therefore, on default rates. Reference is also made to other situations of uncertainties which are becoming increasingly important, such as the possibility of financial market participants and infrastructures being subject to cyberattacks, which in very specific cases may be of relevance from a financial stability perspective.

__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 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



Full document: [Financial Stability Note No.12, October 2019]()

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