I Securities markets and their agents: situation and outlook

Contents

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1 Executive summary

– Fears of a slowdown in world growth, which intensified at the end of 2018 and led to a period of high stock market volatility, were confirmed in the early months of the year with the publication of various indicators that revealed not only the level of the slowdown in economic growth, but also the loss of synchrony between the most important economies. This slowdown is essentially the result of the restrictions applied to world trade, although other significant sources of uncertainty may also be noted, some of which are political. This change of scenario has been decisive for the Federal Reserve and the ECB. The former has decided to pause, for the time being, its process of rate hikes, while the latter has decided not to initiate the process in view of the slowdown in economic growth. The ECB has also announced a new programme of targeted longer-term refinancing operations (TLTRO-III) aimed at financial institutions in the euro area, each with a maturity of two years, with the aim of preserving favourable bank lending conditions and the smooth transmission of monetary policy.

– In this context, international financial markets tended to stabilise in the first quarter of the year, following the turbulence at the end of 2018. In the case of equity markets,[1] the most important stock market indices recorded gains that offset part of the losses of the previous year (in some cases, all of them). The gains ranged between the 6% of the Japanese Nikkei index and the 16.5% of the US NASDAQ index (or the 16.2% of the Italian Mib 30), in an environment of low volatility and a fall in trading volumes.

– In international debt markets, short-term yields continued to reflect the different specific stances of monetary policy on both sides of the Atlantic. Long-term yields fell across the board as a result of future expectations with regard to monetary policy, resulting from an environment of lower growth and inflation and also the status of some of the benchmark assets as safe havens at times of uncertainty. In the euro area, yields on 10-year sovereign bonds have remained very low, particularly in the case of Germany, which ended the quarter in negative figures (-0.07%). Yields in other European economies, with falls of over 30 basis points (bp) in many cases, were low but positive (0.32% in France, 0.42% in Belgium and 0.56% in Ireland). In the United States, bond yields also fell in the early months of the year (by 28 bp), but remained at a much higher level (2.41%).

1 The closing date of this report is 31 March, except for certain information, such as that resulting from the latest *World Economic Ourlook*, published by the IMF on 9 April.

- In the case of the Spanish economy, the slowdown in growth is much milder than in other European economies, such as Germany or Italy. The latest forecasts published by the IMF place GDP growth in Spain at 2.1% this year (2.6% in 2018), 0.1 percentage points down on the figure forecast back in January and 0.8 percentage points above the expected growth for the euro area. The relatively favourable performance of the economy allowed the unemployment rate to fall once again in 2018, to stand at 14.5% of the active population in the fourth quarter, and employment to rise by 2.5%. The inflation rate, which temporarily exceeded 2% as a result of higher energy prices, stabilised at figures of slightly above 1%, while the public deficit ended 2018 at 2.6% of GDP. This allowed Spain to leave the European Union's Excessive Deficit Procedure, which it had been subject to since 2009.

- Banks managed to improve the results of their businesses in Spain in 2018, with profits of over 12 billion euros. As in the rest of the euro area, that profitability is squeezed by the context of low interest rates, which prevents improvements in the net interest income. However, some business indicators, such as non-performing loans, improved as a result of the buoyancy of the economy. Strengthening solvency levels and addressing the increased competition from new participants in the market are significant challenges for the sector.

- The Spanish economy faces various types of risk. In addition to those relating to the banking sector, significant risks include, on the one hand, the need to continue consolidating the public accounts and, in particular, reduce the level of debt and, on the other hand, the need to maintain efforts to reduce the unemployment rate, particularly for the long-term unemployed. This needs to be done in a context in which an ageing population poses a significant challenge and the continuation of some sources of political uncertainty might hinder economic development over the medium term.

- In Spanish financial markets, the stress index has remained at low levels over the last few months and ended March at 0.17. A significant part of this low level is the result of the absence of correlation between the stress levels of the six sub-indices making up the total index. This compact measure of systemic risk in Spanish markets is therefore compatible with the identification of somewhat higher stress levels in specific segments, such as that of financial intermediaries (banks) and the debt segment.

- Spanish equity markets, which had ended 2018 with significant falls, began the year with notable gains that made it possible to recover part of the losses of the previous year (-15% in 2018). As in other significant markets, although uncertainties relating to Brexit remained, share prices grew thanks to the reduction in trade tension between the United States and China, as well as maintenance of the ECB's accommodative policy. In addition, after the falls of 2018, the share price of many companies was at an attractive level for many investors. As a result, the Ibex 35 recorded gains of 8.2% in the first quarter of the year, which placed it at the low end of the range compared with other European indices in an environment, as mentioned above, of low volatility and falls in trading volumes.

– In Spanish fixed-income markets, the yields on long-term government bonds, which had fallen in the final stretch of 2018, continued with this trend in 2019 as they reflected expectations in relation to maintenance of monetary policy, in a context of lower growth and lower inflation. As a result, the yield curve only shows positive values after the 5-year benchmark, with the average yield on the 10-year government bond standing at 1.14% in March (1.43% in December 2018). The sovereign risk premium did not record any significant changes and ended the quarter at 117 bp (138 bp below the Italian sovereign risk premium).

– Assets managed by Spanish investment funds fell slightly in 2018 (-2.3%) following 5 years of continuous growth, which placed them at 259.1 billion euros at the end of the year (to which the assets managed by collective investment schemes in the form of a company, SICAVs, which stood at 27.84 billion euros, should be added). The fall in the assets managed by these undertakings is due to the negative yield of the assets in their portfolios. In the case of funds, this negative yield was 4.9% and could not be offset by the volume of net subscriptions (7.84 billion euros), which was lower than in previous years. In fact, in the final part of the year, coinciding with the period of stock market turmoil, not only did the value of the funds' portfolio fall, but there were also significant net redemptions. The number of unit-holders (measured by number of accounts) rose by 9% to over 11.2 million.

– The fall in assets managed by CIS management companies in 2018 did not prevent them recording a significant increase in profit before tax, which stood at 1.12 billion euros. This increase, which is the result of the growth in fees received for portfolio management, was not evenly spread amongst the various companies as the number of loss-making management companies rose from 19 in 2017 to 26 in 2018 and the volume of the losses almost doubled.

– With regard to the business of providing investment services, credit institutions continued to be the main providers of such services in Spain in 2018, accounting for the bulk of the fee revenue for the different types of services (over 90% of the total). Non-bank financial intermediaries (mainly broker-dealers and brokers) account for a proportion of some significance in the activities of order transmission and execution, although they offer a wide range of services. These intermediaries, which are undergoing a complex period as a result, *inter alia*, of increased competition in the sector, suffered a 34% fall in aggregate profits before tax in 2018, which amounted to 116.4 million euros. In this context, there was a progressive reorientation of their business towards financial services which in previous years were less important, such as marketing CIS, portfolio management and investment advisory services. Despite the fall in profits, the non-bank financial intermediation sector continued to record relatively very high solvency ratios.

– The report includes three monographic exhibits:

  - The first describes the main new aspects of the monetary policy adopted by the ECB and the delay in its expected normalisation, which was the result of the sharp slowdown in economic growth in the euro area.

  - The second relates to the initiative recently adopted by the CNMV to promote the presence of women on boards of directors and in senior management at listed companies, which consists of publishing in a separate and individualised manner the information reported by these companies in this area in their annual corporate governance reports.

  - The third summarises the origin and the process for creating a macro-prudential authority in Spain, which seeks to improve the coordination of macro-prudential oversight at a national level and to help prevent and mitigate systemic risks. This new authority, in which the three Spanish financial supervisors participate, has already held its first meeting.

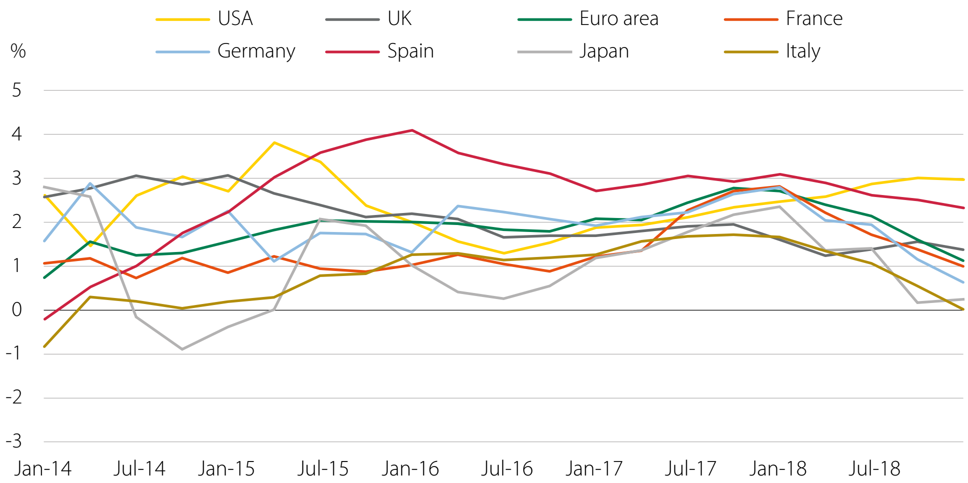
2 Macro-financial background

2.1 International economic and financial developments

World growth remained strong in 2018, although a slowdown was recorded in some economies and there was less synchrony among the different countries. Accordingly, world GDP growth stood at 3.7%.

World growth remained strong in 2018, although a slowdown was recorded in some economies and there was less synchrony among the different countries. World GDP growth stood at 3.7%, 0.1 percentage points below that recorded in 2017. By region, growth was particularly strong in the United States, which was practically the only advanced economy to record an acceleration in growth (from 2.2% in 2017 to 2.9% in 2018). In the euro area, in contrast, political uncertainties together with effective and expected restrictions to global trade led to a marked slowdown in growth, which dropped from 2.5% to 1.8%. There was a particularly noteworthy slowdown in GDP growth in Germany (from 2.5% in 2017 to 1.5% to 2018), in France (from 2.3% to 1.6%) and in Italy (from 1.7% to 0.8%). Growth in Spain was also lower than in the previous year (2.6% compared with 3% in 2017) although the slowdown was less intense than in other European economies. Finally, growth in the United Kingdom slowed to 1.4% (previously, 1.8%). Other non-European advanced economies also recorded a significant slowdown in growth, notably Japan, where growth fell from 1.9% in 2017 to 0.9% in 2018.

Annual % change in GDP FIGURE 1



Source: Thomson Datastream.

At its last meeting, held on 19 and 20 March, the Federal Reserve decided to maintain the benchmark interest rate in a range of 2.25-2.50%, as a consequence of weaker growth forecasts. The expectations of interest rate rises that existed a few months ago have dissipated as the Federal Reserve, whose mandate consists of maximising employment and stabilising inflation around 2%, declared that it would be patient when deciding new rate movements in view of the latest global economic and financial developments. In addition, the Federal Reserve announced that from May it will slow the reduction in its balance sheet[2] with the intention of completing this process in September.

At its last meeting, the Federal Reserve decided to maintain its benchmark rate in the range of 2.25-2.50%…

For its part, the ECB announced in March its decision to maintain the main refinancing rate, the deposit facility rate and the marginal lending rate at 0%, -0.4% and 0.25%, respectively, and its expectation that these rates will remain low at least until the end of 2019 and even beyond, in order to ensure that inflation would rise in line with the ECB's target (levels below, but close to, 2%). With regard to the asset purchase programme, it reiterated its intention to continue reinvesting the maturing debt for a long period of time and, in any case, as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The most significant new development was the announcement of a new programme of targeted longer-term refinancing operations (TLTRO-III), each with a maturity of two years. According to the ECB, these operations will make it possible to maintain favourable bank lending conditions and the smooth transmission of monetary policy (see Exhibit 1).

… and the ECB also decided to leave the official interest rate unchanged and confirmed a new programme of targeted longer-term refinancing operations (TLTRO-III).

2 The balance sheet has been reduced by approximately 11% since October 2017, when the Federal Reserve began the normalisation of its monetary policy.

Towards a shift in the ECB's monetary policy? EXHIBIT 1

The monetary policy of the European Central Bank over the last decade has been marked by a set of actions intended (within the Bank's inflation-focused mandate) to combat the effects of the economic and financial crisis. These have included both conventional and non-conventional measures, in the framework of a clearly expansive monetary policy.

These measures had three stages: an initial stage up to 2009, in which only conventional decisions were taken, such as lowering interest rates to the level of 1%;[1] a second, more proactive, stage, which began in July 2009, when the first programme[2] to purchase assets in financial markets was approved, which was followed by a set of purchase programmes – both for public and private debt – up to 2014; and, finally, a third ultra-expansive stage of its monetary policy as from 2014, when all these measures proved to be insufficient to prevent low inflation levels over a prolonged period, recover the confidence of economic agents, favour the expansion of lending and, consequently, promote growth. The actions in this last stage were focused on three areas:

i) Successive additional reductions in interest rates, until the benchmark rates were at values of 0% or lower. Accordingly, for example, in June 2014 the deposit facility rate stood in negative territory for the first time (-0.10%), with the aim of promoting growth in lending.

ii) Start in October 2014 of two new private debt purchase programmes: the Third Covered Bond Purchase Programme (CBPP3) and the Asset-Backed Securities Purchase Programme (ABSPP). Subsequently, as from March 2015, the asset purchases included bonds issued by euro area governments and European agencies and institutions (Public Sector Purchase Programme – PSPP) and, finally, the programme was extended once again in June 2016 to include purchases of corporate debt (Corporate Sector Purchase Programme – CSPP). All these programs in turn constituted the Expanded Asset Purchase Programmes (APP).[3]

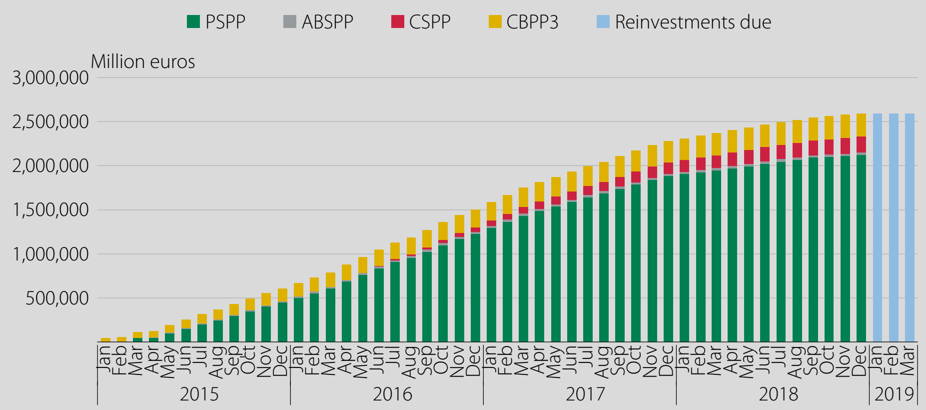
iii) Establishment, as of September 2014, of a financing facility for the banking sector through a set of longer-term refinancing operations (up to four years) in favourable conditions linked to their loan portfolio, referred to as "targeted longer-term refinancing operations" (TLTRO I and II), which were completed in March 2017.

Many of these measures were of an extraordinary nature and the initial objective was to withdraw at least part of them gradually as the economic situation improved, as the Federal Reserve did in the United States at the corresponding time with its monetary expansion programme. Accordingly, over 2017 as the economic recovery in the euro area consolidated (in the context of moderate inflation), the ECB decided to adopt the first measures for partial withdrawal of the stimuli, reducing the amount of its monthly debt purchases, which were once again reduced by half in October of that year, with the aim of phasing them out completely over 2018. Thus, the amount of the purchases and their composition evolved over time depending on monetary policy needs to end in December of last year, by which point they had accumulated purchases for a value of 2.6 trillion euros (see Figure E1).

During the first half of 2018, the ECB maintained its strategy of gradual withdrawal of the expansive measures, in a context in which economic agents and investors expected a more intense shift in direction in its monetary policy, to make it more restrictive by following the path set by the Federal Reserve, which had already made several rate hikes. Nevertheless, the ECB maintained its rates unchanged and reiterated its commitment to leave them at 0% at least until the summer of 2019.

Accordingly, when the markets assumed that the ECB would initiate a slow exit strategy towards a less accommodative monetary policy, the first signs of weakness in the European economy arrived, which have become more consolidated in the early months of 2019 as new data and economic forecasts for the euro area became known. In this new scenario, in which the ECB itself has shown its concern about the worsening of the economic environment by cutting its growth forecast for the area from 1.7% to 1.1% in 2019, the monetary authority has opted to once again refocus its monetary policy by maintaining its accommodative stance. In fact, at the start of March of this year, its president confirmed the ECB's intention to ensure an "ample degree of monetary accommodation", delaying the first interest rate hike to the end of the year or even longer. Similarly, it has continued with the non-conventional measures as, although the debt purchases ended in December 2018, the ECB will continue to reinvest the assets acquired under this programme when they reach maturity and it has recently announced that in September it will start up a third round of refinancing operations for the banking sector under favourable conditions (TLTRO III).

Cumulative net purchases of the ECB's purchase programmes FIGURE E1



Source: CNMV with ECB data.

1 The interest rate on the main refinancing operations, which had stood at 4.25% since 2000, fell for the first time by 50 bp in October 2008 to 3.75%. Subsequently, there were 6 additional reductions for it to stand at 1% in December 2009.

2 On 9 July 2009, the first Covered Bond Purchase Programme (CBPP1) was launched, which ran until June 2010 and led to purchases for a nominal amount of 60 billion euros. Subsequently, the Securities Market Programme (SMP), which included purchases of public debt issued by euro area governments,

ran from May 2010 to September 2012. The latter programme coincided in time with the second Covered Bond Purchase Programme (CBPP2), which ran from November 2011 to October 2012 and accumulated purchases for a nominal amount of 16.4 billion euros.

3 The programme's debt purchases began in March 2015 with monthly net purchases of 60 billion euros until March 2016, to rise to 80 billion from April 2016 until March 2017. As from April 2017, the monthly net purchases were again reduced to 60 billion euros, and then further reduced in October of that year to 30 billion euros. Finally, as from October 2018, monthly net purchases were reduced again, until they were ended in December of the same year, at 15 billion euros.

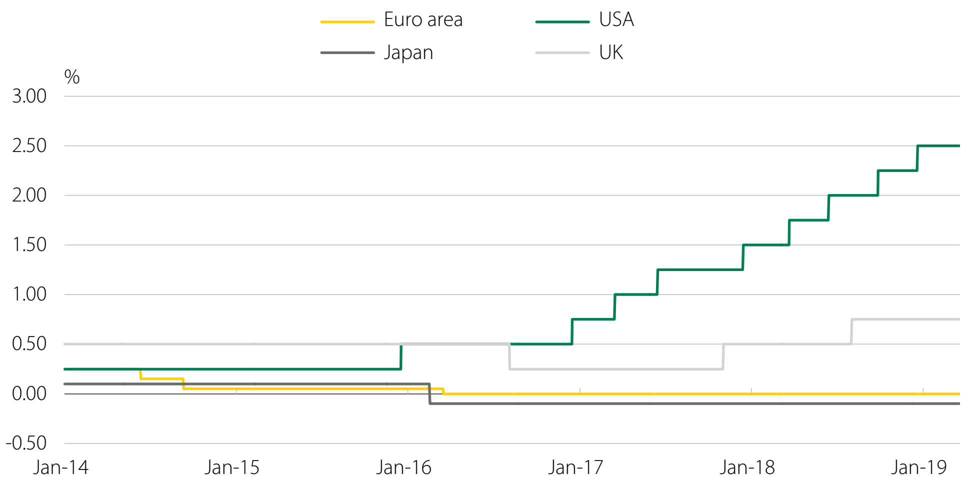
For their part, both the Bank of England and the Bank of Japan decided not to make any changes to official rates or the amounts of their purchase programmes.

Lastly, the Bank of England, in its March meeting, also decided not to change its bank rate, which has remained at 0.75% since August 2008, and the amounts in its asset purchase programme. Similarly, official interest rates in Japan have remained at -0.1% since February 2016. The central bank has expressed its intention to keep them unchanged for a long period of time as a result of the uncertainty relating to economic growth and movements in prices.

Short-term interest rates continued diverging between regions in the first quarter of 2019 due to the different monetary policy stances applied.

Movements in short-term interest rates in the first quarter of the year continue to diverge between regions, as a consequence of the different timing of the monetary policies applied. Thus, 3-month rates in the United States, which had risen by 111 bp in the previous year, recorded a fall of 21 bp in the first quarter of 2019, to stand at 2.6% at the end of March. Similarly, after rising by 39 bp in 2018, 3-month rates in the United Kingdom fell by 6 bp in the early months of the year to stand at 0.85% in March. For their part, short-term interest rates in the euro area, which recorded few changes over 2018, continued along this path in 2019. The 3-month benchmark ended the quarter at -0.31% and the 12-month benchmark ended the quarter at -0.11%.

Central bank interest rates FIGURE 2

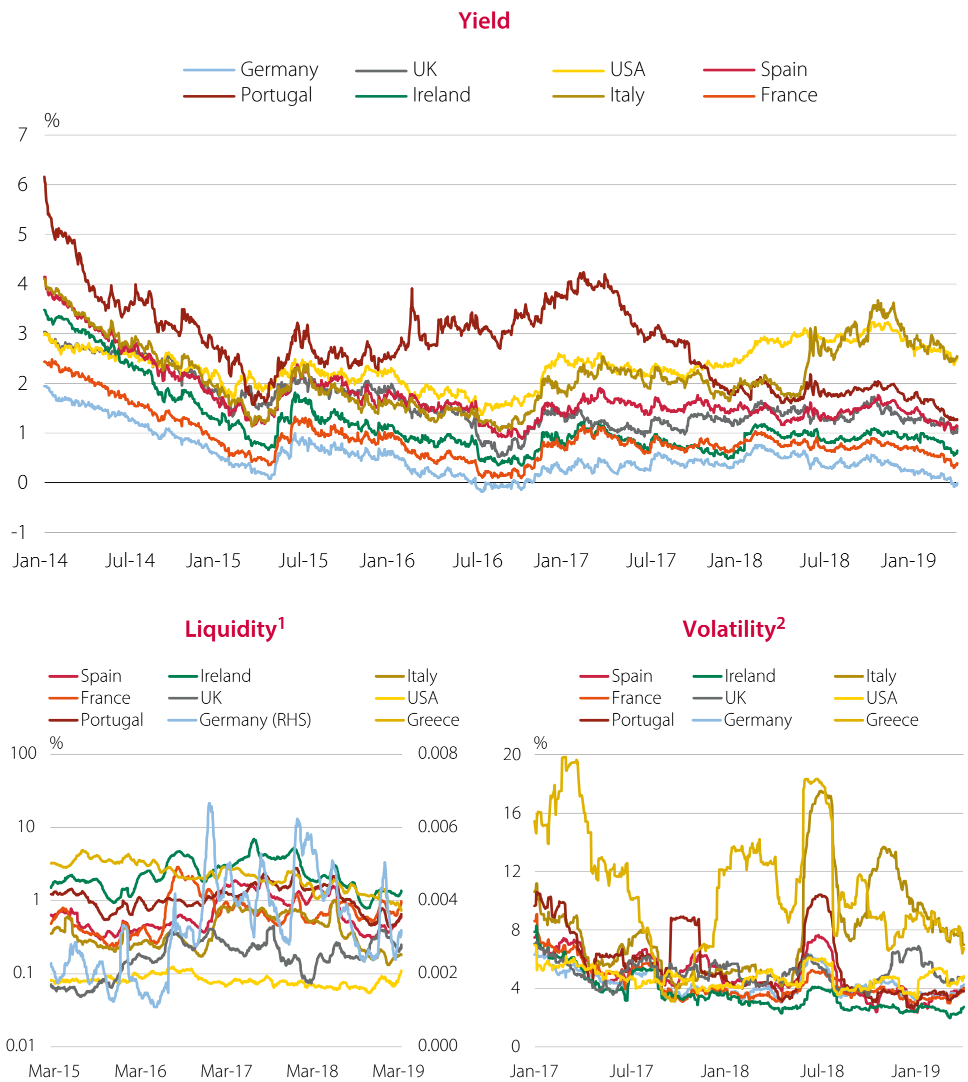


Source: Thomson Datastream. Data to 31 March.

Yields on long-term government bonds performed relatively evenly in the first quarter of 2019, with falls in most advanced economies (in line with expectations about monetary policy). Thus, yields on sovereign bonds fell across the board compared with the previous quarter and the first quarter of 2018, except in the case of Italy, where the yield on the sovereign 10-year bond was 70 bp higher than in March of the previous year.

Sovereign bond yields fell across the board compared with the previous quarter, both in the United States and in the euro area…

Indicators of the 10-year sovereign bond market FIGURE 3



Source: Bloomberg, Thomson Datastream and CNMV. Data to 31 March.

1 One-month average of daily bid-ask spread for yields on 10-year sovereign bonds (logarithmic scale). In the case of the German bond, the one-month average of the bid-ask spread is represented without dividing by the yield average to avoid the distortion introduced by its proximity to zero.

2 Annualised standard deviation of daily changes in 40-day sovereign bond prices.

The most significant falls in the first quarter took place in the euro area due to the maintenance of low interest rates, in the context of a delay in the process of normalising monetary policy. Particularly noteworthy was the fall in the yield of the German 10-year bond (32 bp), which stood in negative figures (-0.07%), as a result of its status as a safe-haven asset. The yield in Portugal fell by 47 bp, to 1.26%; in France

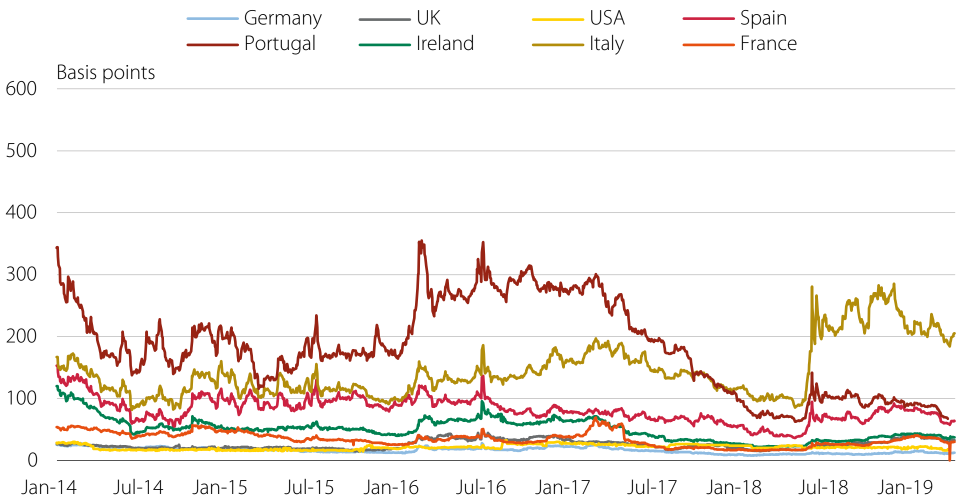
… with the falls being somewhat sharper in the latter region.

by 39 bp, to 0.32%; and in Ireland and Belgium by 35 bp, to 0.56% and 0.42%, respectively. In the United States, sovereign bond yields fell by 28 bp on December 2018, to stand at 2.41%.

Sovereign credit risk premiums fell over the first quarter of 2019.

Sovereign credit risk premiums of advanced economies (as measured by 5-year CDS contracts) fell over the first quarter of 2019, after a year in which, coinciding with downgrades of world growth forecasts, they had generally risen in most economies. There were significant falls in Greece (-96 bp, to 362 bp), Portugal (-16 bp, to 73 bp) and Spain (-17 bp to 64 bp). In Italy, the sovereign risk premium, which had risen by almost 90 bp in 2018 (CDS) due to doubts about the sustainability of Italian public accounts, recorded few changes in the early months of 2019 and remained at levels slightly above 200 bp.

Credit risk premiums on public debt (5-year CDS) FIGURE 4



Source: Thomson Datastream. Data to 31 March.

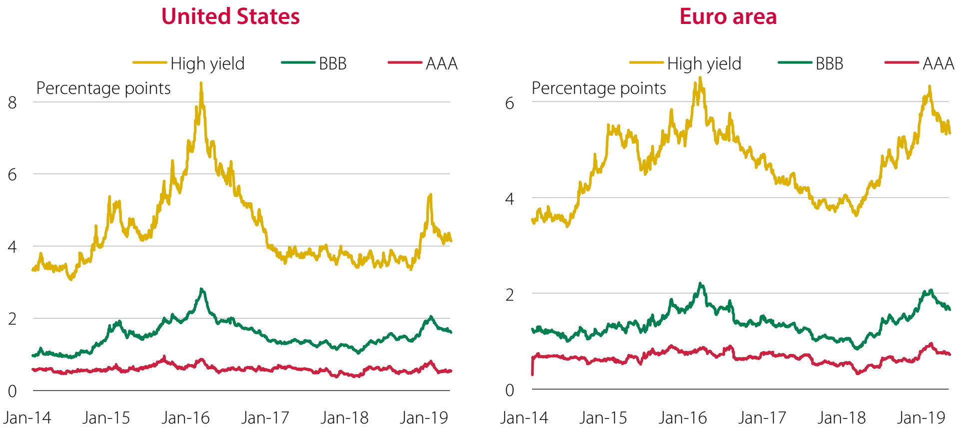
Corporate bond spreads fell in all segments (with greater intensity for high-yield bonds) both in the United States and in the euro area.

Corporate bond spreads in advanced economies fell in all bond segments compared with the values recorded at the end of 2018, a year in which they had risen. These falls were sharper in assets with poorer credit quality both in the United States and in the euro area. In the United States, the credit spread fell by 105 bp in the first quarter of the year, to 427 bp for high-yield bonds; 37 bp for BBB grade, to 164 bp; and 25 bp for AAA grade, to 54 bp. Similarly, in the euro area, corporate bond spreads fell by 64 bp in the high-yield segment, to 553 bp; 27 bp for BBB grade, to 172 bp; and 13 bp for AAA grade, to 76 bp.

Corporate bond spreads

FIGURE 5

Spread vs. the 10-year government bond[1]



Source: Thomson Datastream and CNMV. Data to 31 March.

1 In the euro area versus German public debt.

Net long-term issuance in global bond markets in the first three months of 2019 (semi-annualised data) fell slightly compared with the first half of 2018 and stood at 1.12 trillion dollars (1.1% down on the same period of the previous year). This fall was mainly the result of the fall in net issuance by the financial sector, which was 22% down on the figure for the same period of the previous year. In contrast, net non-financial sector issuance and net sovereign issuance rose by 12% and 14%, respectively.

Global debt issuance in the first quarter of 2019 fell slightly in year-on-year terms due to the fall in net issuance by the financial sector.

Net sovereign debt issuance rose by 54 billion dollars, to a total amount of 439 billion dollars. In Europe, there was an increase of 158 billion dollars, to a net volume of 221 million dollars, while in the United States, it grew by 145 billion dollars to 200 billion dollars. In contrast, there was a substantial fall in net debt issuance in Japan, which moved into negative figures (-126 billion dollars compared with 37 billion dollars in the first half of 2018).

In particular, net sovereign debt issuance rose by 54 billion dollars. By region, Europe and the United States recorded an increase, while Japan recorded a substantial fall.

As mentioned above, the trend in private sector issuance was uneven between subsectors, with a fall in issuance by the financial sector and a rise in issuance by the non-financial sector. In the case of the former, total net issuance went from 468 billion in the first half of 2018 to 365 billion in 2019, with the increase coming mostly from Europe, while in the case of the latter, there was an increase of 36 billion dollars, to a volume of 320 billion. The rise in non-financial corporate debt issuance was the result of the upturn in issues in the United States, where they rose by 77% on the first quarter of 2018, to stand at 173 billion dollars.

In contrast, net private sector issuance performed unevenly.

Net international debt issues

FIGURE 6

Source: Dealogic. Half-yearly data. Data for the first half of 2019 are up to 31 March, but their half-yearly equivalent is shown for comparative purposes.

The leading equity indices, which in 2018 had recorded substantial falls across the board, recorded significant gains in the first three months of 2019.

The leading equity indices, which in 2018 recorded substantial falls, posted gains in the first three months of 2019 and recovered a significant part of the losses recorded in the previous year (in some cases, all of them). These increases took place after investors became aware of the position of the ECB and the Federal Reserve, more inclined to delay, in the case of the former, and to make more gradual, in the case of the latter, the interest rate hikes in the current context of a slowdown in economic growth. Certain progress in the negotiations on trade agreements between China and the United States and the fact that many companies recorded attractive share prices for a good number of investors, following the losses of 2018, also had a positive impact.

By region, both US and European indices recorded significant gains.

US stock indices recorded significant growth in the first quarter of the year: 11.2% in the Dow Jones index, 13.1% in the S&P 500 and 16.5% in the Nasdaq technology index. Similarly, European stock markets recorded significant gains, which ranged between the 8.2% of the Ibex 35 and the 16.2% of the Italian Mib 30 index. The United Kingdom's FTSE 100 index also recorded gains, although it remains conditioned by uncertainty about the development of Brexit negotiations.

Emerging stock markets performed favourably in the first quarter of 2019, with the MSCI equity index recording gains of 9.5%. By region, there were noteworthy gains in Asian indices and, in particular, those linked to the development of the Chinese economy. Accordingly, the Shanghai Composite index gained 23.9% and the Hong Kong Hang Seng index gained 12.4%, which reflects the improvement in trading between China and the United States and the postponement of the increase in tariffs imposed by the US administration on Chinese products. For their part, the Argentinian Merval index and the Brazilian Bovespa gained 10.5% and 8.6%, respectively, while the Mexican stock market grew at a lower rate (3.9%). Among the eastern European economies, there was noteworthy growth in the Russian (RTS) index of over 12%.

Emerging stock markets also performed positively in the first quarter of 2019.

Performance of main stock indices[1] TABLE 1

%

	2015	2016	2017	2018	II 18	III 18	IV 18	I 19
World								
MSCI World	-2.7	5.3	20.1	-10.4	1.1	4.5	-13.7	11.9
Euro area								
Eurostoxx 50	3.8	0.7	6.5	-14.3	1.0	0.1	-11.7	11.7
Euronext 100	8.0	3.0	10.6	-11.2	3.3	1.5	-13.6	13.7
Dax 30	9.6	6.9	12.5	-18.3	1.7	-0.5	-13.8	9.2
Cac 40	8.5	4.9	9.3	-11.0	3.0	3.2	-13.9	13.1
Mib 30	12.7	-10.2	13.6	-16.1	-3.5	-4.2	-11.5	16.2
Ibex 35	-7.2	-2.0	7.4	-15.0	0.2	-2.4	-9.0	8.2
United Kingdom								
FTSE 100	-4.9	14.4	7.6	-12.5	8.2	-1.7	-10.4	8.2
United States								
Dow Jones	-2.2	13.4	25.1	-5.6	0.7	9.0	-11.8	11.2
S&P 500	-0.7	9.5	19.4	-6.2	2.9	7.2	-14.0	13.1
Nasdaq-Composite	5.7	7.5	28.2	-3.9	6.3	7.1	-17.5	16.5
Japan								
Nikkei 225	9.1	0.4	19.1	-12.1	4.0	8.1	-17.0	6.0
Topix	9.9	-1.9	19.7	-17.8	0.9	5.0	-17.8	6.5

Source: Thomson Datastream.

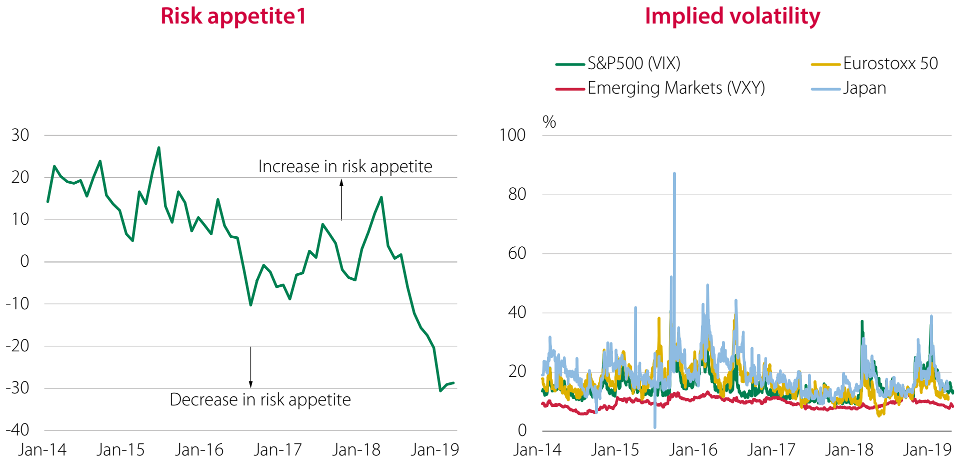
1 In local currency. Data to 31 March.

The implied volatility measures of the most important stock indices, which in some cases rose to values of close to 40% in December, fell over the first quarter of the year to much lower levels. Thus, coinciding with a period of growth in the different indices, implied volatility levels stood at under 15% in most cases (see right-hand panel of Figure 7). The highest levels of implied volatility were recorded in the Nasdaq, the Mib 30 and the Nikkei indices, with figures of slightly under 20%.

Global implied volatility measures fell in the first quarter of the year and stood at low levels.

Financial market indicators

FIGURE 7



Source: Thomson Datastream and CNMV.

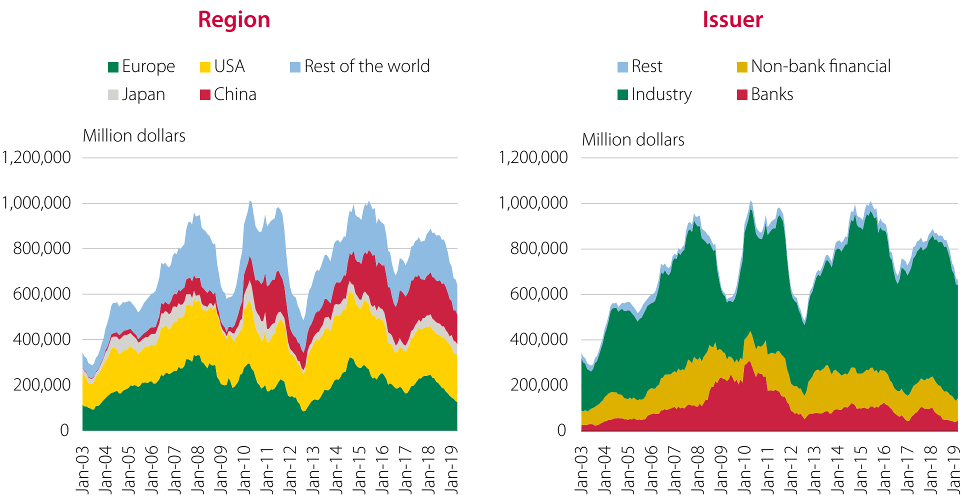
1 State Street indicator.

The volume of equity issuance fell by 37.4% in the first quarter of 2019, with noteworthy falls in utilities and industrial companies.

The volume of equity issuance fell by 37.4% in the first quarter of 2019 to stand at close to 136 billion dollars. There were falls recorded across all the regions studied, particularly in Japan and Europe, where issuance fell by 51.8% and 43.6%, respectively. In China and the United States, the falls were slightly more moderate, at 34.4% and 27.2%, respectively. By sector, equity issuance only grew in the banking sector, with a figure that doubled the amount issued in the same period of the previous year. Falls were recorded in the other sectors, which were sharper in utilities and industrial companies.

Global equity issuance

FIGURE 8



Source: Dealogic. Cumulative 12-month data to 31 March.

2.2 National economic and financial developments

Spain's GDP grew by 2.6% in 2018, 0.8 percentage points more than in the euro area.

Spain's GDP grew by 2.6% in 2018, thus continuing along the expansive path that began in 2014, although at a slightly lower rate than in previous years (3% in 2017 and 3.2% in 2016), in line with the context of slowing economic growth in other economies. However, the slowdown in domestic growth was lower than in the euro area (where growth fell from 2.5% to 1.8%, as a result of the poorer performance of Germany), which raised the difference in growth from 0.5 percentage points (pp) to 0.8 pp.

The contribution of domestic demand to growth remained constant at 2.9 pp in 2018, while the contribution of the external sector ended the year at -0.4 pp (0.1 pp in 2017).

The contribution of domestic demand to GDP growth remained constant at 2.9 pp in 2018, while the contribution of the external sector, which had not ended a year in negative figures since 2015, stood at -0.4 pp (0.5 percentage points lower than in 2017). With regard to the components of domestic demand, growth in public consumption picked up speed between 2017 and 2018 (rising from 1.9% to 2.1%), as did gross fixed capital formation (from 4.8% to 5.3%), while the growth of private consumption recorded a slight slowdown (from 2.5% in 2017 to 2.3% to 2018). With regard to the components of the external sector, both exports and imports recorded a slowdown in growth as a result of the international trade situation. Imports grew by 3.5% (5.6% in 2017) and exports by 2.3% (5.2% in 2017). The sharper slowdown of the latter meant that the contribution of the external sector to growth was negative throughout last year.

On the supply side, growth in value added continued in the construction sector and, to a lesser extent, in the services sector.

On the supply side of the economy, stronger growth was recorded in the construction sector, whose value added grew by 6.8% in 2018 (6.2% in 2017), while slower growth was recorded in the industrial sector, which grew by 1.2% compared with 4.4% in 2017. For its part, the services sector and the primary sector recorded growth in the year as a whole, with a noteworthy increase in the value added of the primary sector, which changed from a fall of 0.9% in 2017 to growth of 1.8% in 2018. In the case of services, value added rose by 2.6% (2.5% in 2017), with a noteworthy increase of 2.3% in financial and insurance activities (0.4% in 2017).

Spain: main macroeconomic variables

TABLE 2

Annual % change

	2015	2016	2017	2018	EC[1] 2019	EC[1] 2020
GDP	**3.6**	**3.2**	**3.0**	**2.6**	**2.1**	**1.9**
Private consumption	3.0	2.8	2.5	2.3	2.2	1.4
Government consumption	2.0	1.0	1.9	2.1	1.7	1.5
Gross fixed capital formation, of which:	6.7	2.9	4.8	5.3	3.9	3.3
Construction	3.6	1.1	4.6	6.2	n.a.	n.a.
Capital goods and other	11.8	5.3	6.0	5.4	6.0	4.1
Exports	4.2	5.2	5.2	2.3	3.3	3.4
Imports	5.4	2.9	5.6	3.5	3.5	3.2
Net exports (growth contribution, pp)	-0.3	0.8	0.1	-0.4	0.0	0.1
Employment[2]	**3.3**	**3.1**	**2.8**	**2.5**	**1.7**	**1.5**
Unemployment rate	**22.1**	**19.6**	**17.2**	**15.3**	**14.4**	**13.3**
Consumer price index[3]	**-0.5**	**-0.2**	**2.0**	**1.7**	**1.7**	**1.5**
Current account balance (% GDP)	**1.2**	**2.3**	**1.8**	**0.8**	**1.0**	**1.0**
General government balance (% GDP)[4]	**-5.3**	**-4.5**	**-3.1**	**-2.6**	**-2.1**	**-1.9**
Public debt (% GDP)	**99.3**	**99.0**	**98.1**	**97.2**	**96.2**	**95.4**
Net international investment position (% GDP)	**78.9**	**70.6**	**66.2**	**59.4**	**n.a.**	**n.a.**

Source: Thomson Datastream , European Commission, Bank of Spain and Spanish National Statistics Office (INE).

1 European Commission forecasts from the autumn of 2018, except for 2019 and 2020 GDP and inflation, which were subsequently revised upwards (0.1 percentage points both years, compared with the previous forecast for GDP and 0.5 percentage points less in 2019 for inflation, with the forecast for 2020 remained unchanged).

2 In full-time equivalent jobs.

3 European Commission forecasts refer to the harmonised index of consumer prices.

4 Data for 2015, 2016, 2017 and 2018 include government aid to credit institutions amounting to 0.1%, 0.2%, 0.4% and 0.01% of GDP, respectively.

n.a.: [data] not available.

The inflation rate normalised throughout 2018 as energy inflation decreased. The gap compared with the euro area ended the year at slightly negative figures.

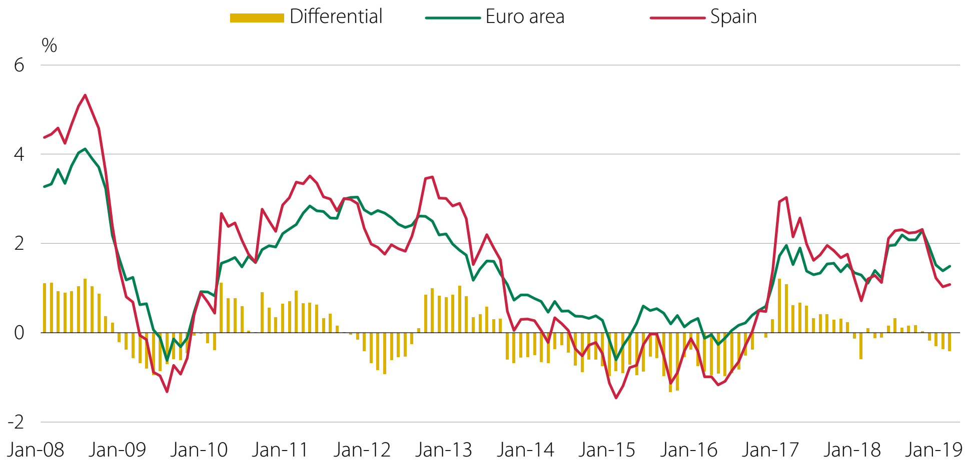
The inflation rate (which exceeded 2% in the middle months of 2018 as a result of higher energy prices) subsequently fell as the energy rate normalised gradually to end the year at 1.2%. It has remained at this rate in the early months of 2019. Core inflation (IPSEBENE), which excludes the more volatile elements in the index, such as energy and unprocessed food, remained in a much narrower range throughout the period (between 0.8% and 1.2%), to end 2018 at 0.9% and record a slight fall in February of this year to 0.7%. The inflation gap with the euro area fluctuated around values close to zero throughout the year and ended December at a slightly negative level (-0.3 pp). The average of this gap over the year was negligible, compared with 0.5 percentage points on average in 2017. In February 2019, this gap fell slightly to -0.4 pp.

Positive job creation data in 2018 (2.5%) helped to reduce the unemployment rate, which remains high.

In the job market, the buoyancy of the economy allowed employment to grow significantly, by 2.5% on average in 2018, but at a slightly lower rate than in previous years (2.8% in 2017 and 3.1% in 2016). Information from the Labour Force Survey

(EPA) indicates that last year the number of employed people rose by 566,200 (2.42 million over the last 5 years) and that the unemployment rate fell to 14.5% in the fourth quarter (16.6% at the end of 2017). Furthermore, year-on-year growth in unit labour costs was positive in 2018, as the increase in remuneration per employee was accompanied by a slight fall in apparent labour productivity.

Harmonised ICP: Spain vs. euro area (annual % change) FIGURE 9



Source: Thomson Datastream. Data to February.

Dynamic growth together with the fall in interest costs allowed the government deficit to fall to 2.6% of GDP in 2018, which allowed Spain to leave the excessive deficit procedure to which it had been subject since 2009.

Public sector finances improved significantly in 2018 as a result of economic growth and lower spending on debt interest. The public deficit ended the year at a rate of close to 2.6% of GDP (3.1% in 2017), which is therefore compatible with Spain leaving the excessive deficit procedure which it has been subject to since 2009. All levels of government that require financing reduced the amount borrowed. Particularly noteworthy was the fall in the deficit of the central government, which dropped from 1.9% in 2017 to 1.6% in 2018; that of the regional governments, which amounted to 0.2% (0.4% in 2017); and, to a lesser extent, that of the social security authorities, which stood at 1.41% (1.44% in 2017). The surplus of the local authorities fell slightly from 0.6% of GDP in 2017 to 0.5% in 2018. Government debt stood at 97.2% of GDP (data from the fourth quarter), and has therefore recorded few changes since the middle of 2014.

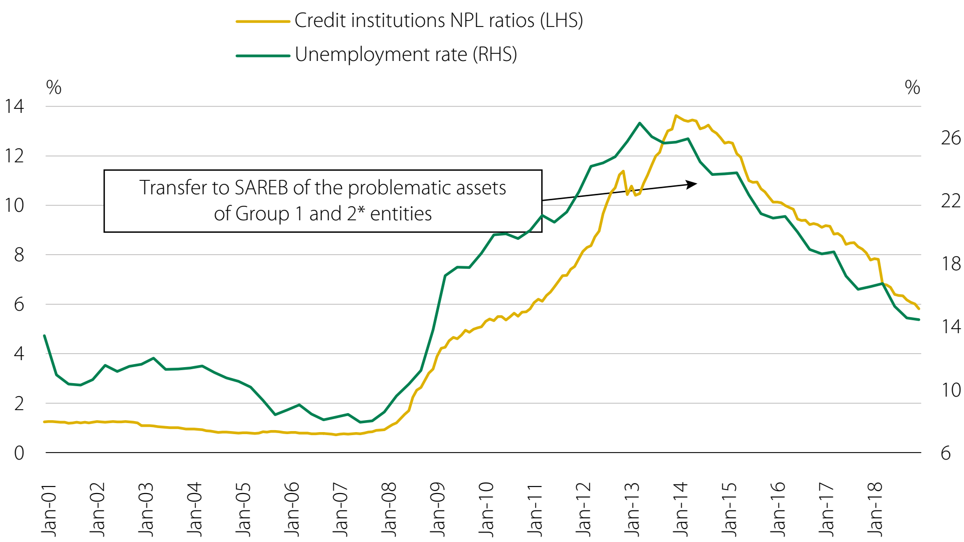
The NPL ratio stands at lows not seen since 2011, although low interest rates continue to apply downward pressure on banks' profitability.

Pending increases in official interest rates (which have been delayed in view of the slowdown in economic growth in the euro area and its effects on inflation), the banking sector continues to operate in an environment of low interest rates which prevents significant improvements in net interest income and faces some structural changes, such as increasing competition from FinTech companies. On a positive note, it is important to stress the fact that the buoyancy of the economy and the favourable performance of the job market continue to allow falls in the NPL ratio, which stood at 5.8% in December (7.8% at the end of 2017), where it stands at lows not seen since March 2011.

The banking sector's aggregate income statement recorded profits of over 12 billion euros in 2018.

Bank income statements show that their activities in Spain led to profits of 12.38 billion euros in 2018 (losses of 3.92 billion euros in 2017, affected by the losses of Banco Popular, which are estimated at 12 billion euros). As mentioned above, bank profits are still restricted by the context of low interest rates, which prevents improvements in net interest income (23.28 billion euros in 2018 compared with 23.23 billion euros in 2017). The significant reduction in impairment of financial assets and other assets led to the improvement in aggregate profit for the sector (which was the highest recorded since 2009).

Credit institution NPL ratios and the unemployment rate[1] FIGURE 10



Source: Bank of Spain and National Statistics Office (INE). Data to December.

1 Percentage of active population.

* Group 1 transfers took place in December 2012 (36.7 billion euros) and Group 2 transfers in February 2013 (14.09 billion euros).

Bank lending to companies and households grew slightly in January 2019, thus continuing the trend of the previous year.

Bank lending to the non-financial resident sector (companies and households) grew slightly in 2018 (0.7%), exceeding the slight fall in 2017 (-0.1%), and the upward trend continued in the early months of 2019 (1.1% in February). Lending to non-financial companies, which in December 2018 rose by 1% (0.4% in 2017), rose by 1.7% in February. Lending to households, which rose by 0.3% in December, reversing the trend of recent years (-1.3% and -0.6% in 2016 and 2017, respectively), continued to grow in February (0.4%). The expansion of consumer lending (5.0% in February 2019, 5.1% in 2018 and 6.2% in 2017) offset the fall in the outstanding balance of home purchase loan (-1.1% in February 2019, -1.3% in 2018 and -2.7% in 2017).

The size of the banking sector fell in 2018, thus resuming the downward trend that began in 2012.

The size of the banking sector, in terms of the aggregate volume of assets from its activity in Spain, fell in 2018 to 2.58 trillion euros (2.65 trillion euros in 2017), thus resuming the downward trend that began in 2012 and was temporarily interrupted in 2017. Some of the most important sources of funding, such as deposits and borrowing from the Eurosystem, recorded falls. Banks' equity recorded a slight fall in 2018, which was sharper in the item including provisions for impairment losses, both of loans and of other assets.

Non-financial listed companies obtained aggregate profit of 22.15 billion euros in 2018, 34% down on 2017, as a result of the heavy losses of a few companies.

Non-financial listed companies obtained aggregate profit of 22.15 billion euros in 2018, 34% down on 2017. This performance was uneven between sectors and companies as, if the poor performance of 4 companies[3] (out of a total of 119) is discounted, the total aggregate profit would have grown by 4.9%, which would be more in line with the buoyancy of the domestic economy. By sector, the largest increases took place in industrial companies, whose profits grew by 8.4% in the year, to over 5.7 billion euros, and in companies from the retail and services sector (deducting the figures of Abengoa), which recorded 7.8% growth in profit. The consolidated profit for the year of energy sector companies grew by 4.2%.[4] Construction and real estate companies recorded a significant fall in aggregate profit, which was also concentrated in a small number of companies,[5] although the performance of their accounts was more evenly spread (profits fell even after deducting those of the largest companies).

Profit by sector: non-financial listed companies TABLE 3

Million euros

	Operating profit		Profit before tax		(Consolidated) profit for the year	
	2017	2018	2017	2018	2017	2018
Energy	11,562	9,571	10,043	7,739	9,727	5,773
Industry	7,491	7,560	6,753	7,162	5,269	5,714
Retail and services	15,158	15,959	17,651	12,669	13,588	8,540
Construction and real estate	5,877	5,370	4,958	4,397	5,009	2,124
Aggregate total	**40,088**	**38,460**	**39,405**	**31,967**	**33,593**	**22,150**

Source: CNMV.

The aggregate debt of non-financial listed companies recorded very little change in 2018 (0.7%), and therefore the aggregate leverage ratio remained at levels under 1.

The aggregate debt of non-financial listed companies recorded very little change in 2018, with an increase of 0.7% to a little over 230 billion euros. This increase was the result of the growth in the debts of retail and services companies, which rose from 81.19 billion euros in 2017 to 84.87 billion euros in 2018 and, to a lesser extent, industrial companies (from 19.71 billion euros to 21.13 billion euros). In contrast, the debt level of energy companies and construction and real estate services companies fell over the year a whole. The aggregate leverage ratio, measured as the debt to equity ratio, barely changed in 2018, rising from 0.97 to 0.98. At the end of the year, the lowest ratio corresponded to industrial companies (0.57) and those related to the energy business (0.73). Lastly, the debt coverage ratio, measured using the ratio of debt to operating profit, worsened slightly as a result of the aforementioned fall in margins.

3 Naturgy (energy), Abengoa (retail and services), OHL and Ferrovial (both from the construction and real estate services sector).

4 Excluding Naturgy's losses, which were close to 2.6 billion euros in 2018.

5 OHL, Ferrovial and Colonial.

CNMV initiative to promote the presence of women on boards of directors and in senior management

EXHIBIT 2

In October 2018, the CNMV decided to publish a separate report with information reported by listed companies in their annual corporate governance reports (ACGRs) on the presence of women on boards of directors and in senior management. The aim of publishing this data is to promote a greater presence of women at the highest level of governance in these companies, in line with the various provisions and recommendations established both in the recast text of the Corporate Enterprises Act and in the Good Governance Code of Listed Companies with regard to these listed companies approving policies that ensure diversity on their boards of directors.

The report, published for the first time at the end of October 2018, contains individualised data for each listed company and information grouped into three categories of company: Ibex 35 companies, companies with a level of capitalisation of over 500 million euros and other companies. For each company, it includes the number of women directors by category (executive, proprietary, independent and other external directors) and their percentage with regard to the boards as a whole in each one of the categories, as well as the total number of women directors and their percentage of the board as a whole. In addition, the report contains the same data with regard to senior management, i.e., the number of women in senior management of each listed company and their percentage with regard to the total number of senior managers.

According to the data reported by the listed companies in their ACGRs for year-end 2017, the average percentage of women on the boards of directors was 18.9%, still far from the target of 30% for 2020 established in Recommendation 14 of the Good Governance Code or the "balanced presence" referred to in Article 529.*bis*.2 of the recast text of the Corporate Enterprises Act. This percentage also decreases as the capitalisation of companies decreases (see Table E2.1).

In addition, at year-end 2017, only 15 listed companies (10.8% of the total), had a percentage of women on their board equal to or higher than that established in the aforementioned recommendation. In contrast, there were 19 companies, none of which belong to the Ibex 35, that did not have any woman on their board of directors.

The distribution by director category shows that most of the women directors discharge their office as independent directors, followed by proprietary directors and other external directors, and that only 4.5% of directors with executive functions are women.

Lastly, the percentage of women in the senior management of listed companies is low, standing at 14.8%, which is below the aforementioned percentage of women directors.

Presence of women on the board of directors and in senior management

TABLE E2.1

	Total women		2017					
			Ibex 35		Over 500 million euros[1]		Under 500 million euros[1]	
	Number	% / total	Number	% / total	Number	% / total	Number	% / total
Total women directors	**258**	**18.9**	**103**	**22.8**	**81**	**18.4**	**74**	**15.6**
Proprietary	72	15.7	19	16.5	30	17.7	23	13.2
Executive	10	4.5	3	4.2	2	2.8	5	6.4
Independent	163	28.1	77	33.9	46	27.5	40	21.4
Other external	13	12.2	4	10.3	3	9.4	6	16.7
Women in senior management (excl. senior management board members)	**156**	**14.8**	**62**	**14.3**	**60**	**16.9**	**34**	**12.9**

Source: CNMV.

1 Information is presented on the companies whose capitalisation meets this criterion.

The latest data on the financial position of households reveal that both their savings rates and their debt-to-income and debt burden ratios continued to fall in 2018. The fall in the savings rate, which dropped from 5.5% of gross disposable income (GDI) at the end of 2017 to 4.9% in 2018, is a result of buoyant aggregate consumption in a context of a slight increase in remuneration per employee. The debt-to-income ratio fell from 100.2% of GDI at year-end 2017 to 98.3% in September 2018 as a result of both a reduction in the level of debt and an increase in the level of aggregate disposable income. The debt burden ratio fell slightly (from 11.5% of GDI to 11.4%) given the stability of the average cost of debt, which is at low levels in the context of growing income. Net household wealth rose in 2018 (from 542.6% of GDP to 553.1%) mainly due to the increase in the value of real estate assets. Financial wealth fell slightly to 182% of GDP.

The financial position of households (debt and wealth) continues to improve although the savings rate fell sharply to stand at 4.9% of disposable income in the fourth quarter of 2018.

Households' net financial investments rose to 1.9% of GDP in 2018 (1.5% in 2017), thus maintaining the trends of previous years but generally with lower amounts. Households continued investing in payment instruments (4.2% of GDP) and reducing their investments in term deposits and bonds (3.6% of GDP) and in shares (1.4% of GDP). Households once again purchased units in mutual funds, although for a slightly lower amount than in previous years, probably as a result of market turmoil at the end of the year. In total, they invested in these products a volume of resources equivalent to 1.8% of GDP (2.4% in 2017).

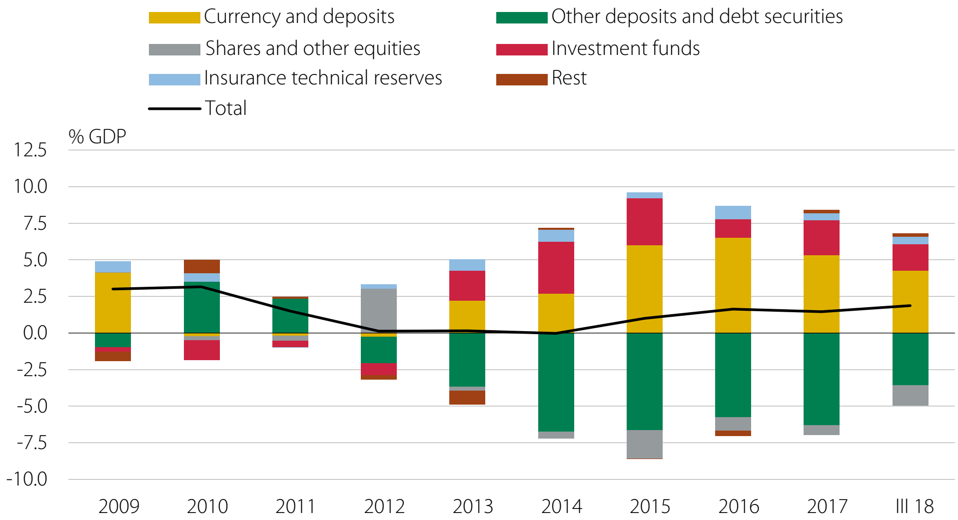
Household's financial investment decisions continue to prioritise more liquid assets and mutual funds…

Unit-holders in mutual funds continued to prefer higher-risk categories, thus following the trend of recent years, although volumes were lower as the investor profile changed in the final part of the year, coinciding with the periods of sharp stock market falls, which led to higher risk aversion and greater preference for more conservative categories. In 2018 as a whole, the most conservative categories recorded

… and within the latter, investors continued to prefer higher-risk categories, although the turbulence at the end of the year modified this pattern in the final months.

net redemptions of close to 6.8 billion euros, while higher-risk categories received a significant inflow of investment (close to 17.6 billion euros in total). Among the latter category, there was significant investment in global funds (over 9.4 billion euros). Net subscriptions in equity funds (mixed, euro and international) ranged between 1.79 billion euros and 3.86 billion euros depending on the category.

Households: net financial asset acquisitions FIGURE 11



Source: Bank of Spain, *Financial Accounts*. Cumulative data from four quarters.

2.3 Outlook

The latest IMF forecasts confirm the slowdown in world growth, which is expected to stand at 3.3% this year (3.6% in 2018) and 3.6% in 2020…

According to the latest IMF forecasts published in April, global GDP growth will continue to slow this year and will stand at 3.3% (3.6% in 2018), before rising slightly to 3.6% in 2020. These forecasts imply a downward revision of 0.2 percentage points for this year compared with the forecasts published in the January report. A large part of the slowdown in economic growth is due to trade restrictions, the loss of the impact of factors that had a positive effect in the past and the presence of various sources of political and financial uncertainty. In the advanced economies, GDP growth will stand at 1.9% this year (2.2% in 2018), with euro area growth standing at 1.3% (1.8% in 2018), with growth in the United States of 2.3% (2.9% in 2018). In Europe, there were noteworthy downward revisions in growth forecasts for Germany and Italy, of 1 percentage point in only a few months (between the downgrade of January and that of April), to expected growth rates of 0.8% and 0.1%, respectively, for this year. Emerging and developing economies are forecast to grow by 4.4% this year and by 4.8% next year (0.1 percentage points down in both cases compared with the previous forecast).

… in a scenario where several risks of various types persist.

The most significant risks looming over this scenario are downside risks and result from the negative effects of the restrictions on world trade and the effect of the normalisation of monetary policy in the United States, the presence of other sources of uncertainty, including the possibility that the United Kingdom will leave the European union without a deal (hard Brexit), and an intensification of doubts about debt sustainability in some European economies. In the euro area, the delay in the process of raising interest rates as a result of the sharp slowdown in economic growth prolongs an environment in which banks are finding it difficult to increase their profitability and in which some market participants are more willing to invest in higher-risk assets (search for yield) or to raise their level of debt.

Gross Domestic Product TABLE 4

Annual % change

					IMF[1]	
	2015	2016	2017	2018	2019	2020
World	3.5	3.3	3.7	3.6	3.3 (-0.2)	3.6 (0.0)
United States	2.9	1.6	2.2	2.9	2.3 (-0.2)	1.9 (0.1)
Euro area	2.1	1.9	2.4	1.8	1.3 (-0.3)	1.5 (-0.2)
Germany	1.5	2.2	2.5	1.5	0.8 (-0.5)	1.4 (-0.2)
France	1.0	1.1	2.3	1.5	1.3 (-0.2)	1.4 (-0.2)
Italy	1.0	0.9	1.5	0.9	0.1 (-0.5)	0.9 (0.0)
Spain	3.6	3.2	3.0	2.5	2.1 (-0.1)	1.9 (0.0)
United Kingdom	2.3	1.8	1.7	1.4	1.2 (-0.3)	1.4 (-0.2)
Japan	1.4	1.0	1.7	0.8	1.0 (-0.1)	0.5 (0.0)
Emerging economies	4.3	4.4	4.7	4.5	4.4 (-0.1)	4.8 (-0.1)

Source: IMF.

1 In brackets, change compared with the previous published forecast (IMF, forecasts published in April 2019 compared with January 2019).

In Spain, economic growth is also slowing down, but less intensely than in the euro area.

According to the latest IMF forecasts published in April 2019, the GDP of the Spanish economy will grow by 2.1% this year and by 1.9% in 2020. These forecasts are a downward revision by 0.1 percentage points for this year compared with the January estimate, while they remain the same for 2020. These forecasts confirm the slowdown in growth in Spain, but also the difference compared with the significant downward revisions that the IMF has made across the board with regard to other important economies. With these figures, the growth gap between Spain and the euro area would stand at 0.8 percentage points this year and 0.4 points next year (0.8 pp on average between 2016 and 2018).

Despite this relative strength, significant sources of vulnerability can also be seen.

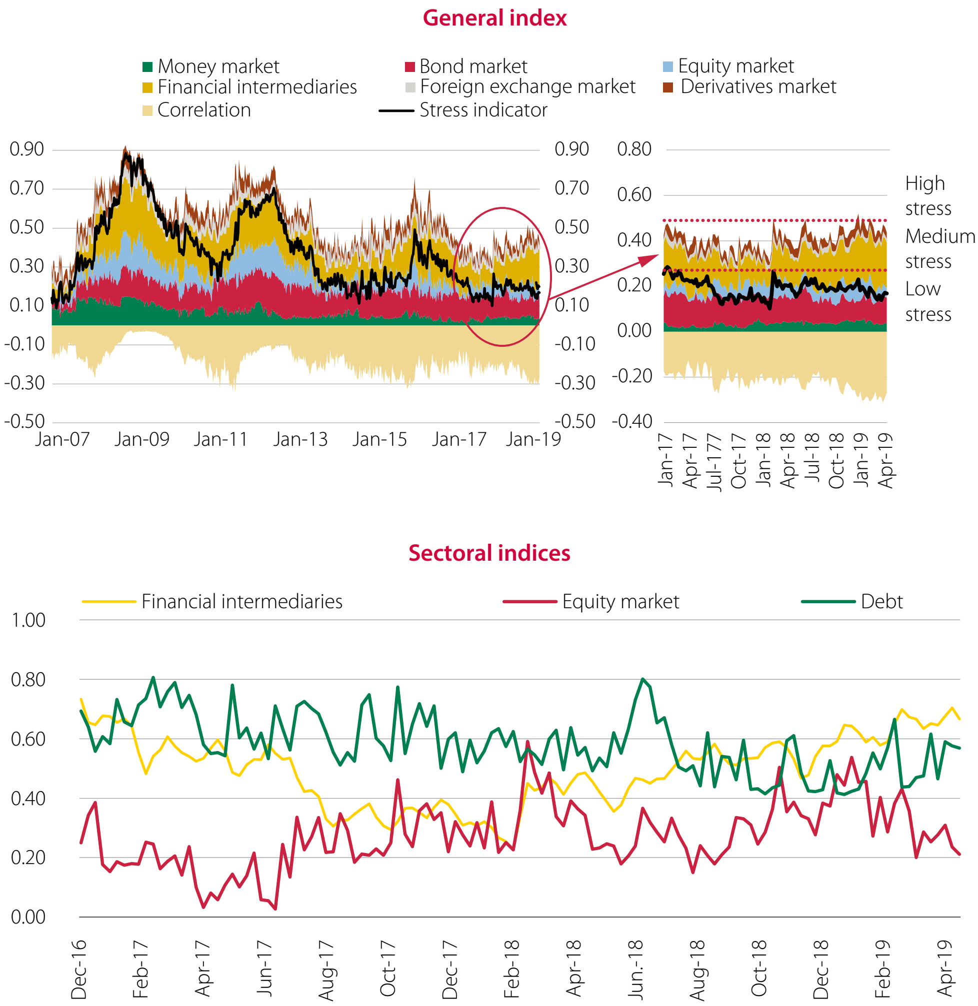
The most significant risks to the domestic economic outlook, some of which are common to other European economies, are related to: i) the challenges faced by the banking sector in raising its profitability and strengthening its solvency; ii) the need to further consolidate public accounts and, in particular, reduce the level of public debt; iii) the high, although falling, unemployment rate together with the challenges resulting from an ageing population; iv) the negative impact for the business of Spanish exporters exposed to markets with more trade restrictions; and v) the prolongation of some sources of domestic political uncertainty.

3 Spanish markets

The Spanish financial market aggregate stress index remains at low levels (0.17 at the end of the first quarter), although there is a significant level of stress in some individual segments, such as the financial intermediary segment and the debt settlement.

The Spanish financial markets stress index[6] has remained at levels considered compatible with low stress over recent months (below 0.27), only recording slight upturns at some times of uncertainty related to Italy. At the end of March, this index stood at 0.17. Much of the low level of the stress index is the result of the low correlation between the six segments considered, since, as it is a systemic risk measure,

Spanish financial market stress index FIGURE 12



Source: CNMV.

6 The stress index developed by the CNMV provides a real-time measurement of systemic risk in the Spanish financial system in the range of zero to one. To do so, it assesses stress in six segments of the financial system and aggregates them into a single figure bearing in mind the correlation between said segments. Econometric estimates consider that market stress is low when the indicator stands below 0.27, intermediate in the interval of 0.27 to 0.49, and high when readings exceed 0.49. For more detailed information on the recent progress of this indicator and its components, see the CNMV's quarterly Financial Stability Note and statistical series (market stress indicators) available at www.cnmv.es/portal/Menu/Publicaciones-Estadisticas-Investigacion.aspx. For further information on the indicator's methodology, see Cambón, M.I. and Estévez, L. (2016). "A Spanish Financial Market Stress Index (FMSI)", Spanish Review of Financial Economics, Vol. 14, No. 1, pp. 23-41, or as CNMV Working Paper No. 60 (http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_60_en.pdf).

the general index only records significant increases if the level of stress rises in every segment at the same time for a prolonged period, which is not the case at the moment. However, there is a considerable level of stress in some of the individual segments analysed. As shown in the bottom panel of Figure 12, this is the case in the financial intermediary segment (mostly banks) and the debt segment, whose stress levels stood at 0.66 and 0.57, respectively, at the end of the first quarter. In the case of the former, the high stress level is mainly the result of the fall in prices in the sector, while in the case of the latter, it is the result of the worsening liquidity of the sovereign debt bond.

3.1 Equity markets

Equity markets recorded significant gains in the first quarter, which allowed them to recover part of the losses of 2018.

Spanish stock markets, which had ended 2018 with significant falls, began the year with notable gains that allowed part of the previous year's losses to be recovered. Although the uncertainties relating to Brexit remain present, stock prices rose thanks to the boost of the trade negotiations between the United States and China, which resulted in a postponement of the rise in tariffs and a relaxing of trade tensions between the two countries, as well as the expectation that the ECB will maintain its accommodative monetary policy over time[7] as a result of the notable slowdown in growth in the euro area. In addition, European indices were favoured by the recovery of indices in the United States, where the Federal Reserve[8] maintained its interest rates unchanged and also indicated the possibility that there may be no more rate hikes at all in 2019.

The largest gains in share prices were concentrated in large companies in the electricity, construction, technology and consumer goods sectors, as well as in small-cap companies.

The Ibex 35 began the year with rises that became more moderate as the quarter progressed, as a result of doubts about the future development of the euro area economy, in which the slowdown in growth[9] is increasingly evident. The price gains were not spread evenly across all sectors and securities in the Spanish market, but were concentrated in large companies, particularly companies in the electricity sector, as well as companies in the construction, technology and capital goods and consumer goods sectors. Small-cap companies also performed well as they were favoured by their lower international exposure and their greater dependence on the domestic market, which continues to perform well, in the context of a slowdown in economic growth. The smallest gains corresponded to medium-cap companies and banks. The former suffered from worsening expectations and a slowdown in the European economy as a result of their greater exposure to these markets, while the latter were adversely affected by the continuing scenario of low interest rates, which applies downward pressure on their margins.

7 The ECB's president confirmed his intention of maintaining "an ample degree of monetary accommodation", delaying until the end of 2019 or longer the first interest-rate hike, which will be accompanied as from September by a new round of injections of liquidity for banks (TLTRO III). The ECB also expressed its concern about the worsening economic environment and cut the growth forecast for the euro area for 2019 from 1.7% to 1.1%.

8 See Section 2.1.

9 Italy is currently in recession (its GDP fell by 0.1% and 0.2% in the third and fourth quarters of 2018 respectively), while Germany has managed to avoid recession but its economy has suffered significantly due to the relative importance of its export sector (its GDP fell by 0.2% in the third quarter and it recorded growth of 0.02% in the fourth quarter).

Performance of Spanish stock market indices and sectors

TABLE 5

Indices	2016	2017	2018	I 18[1]	II 18[1]	III 18[1]	IV 18[1]	I 19[1]
Ibex 35	-2.0	7.4	-15.0	-4.4	0.2	-2.4	-9.0	8.2
Madrid	-2.2	7.6	-15.0	-3.9	-0.1	-2.5	-9.3	8.0
Ibex Medium Cap	-6.6	4.0	-13.7	-1.4	1.9	0.8	-14.8	4.7
Ibex Small Cap	8.9	31.4	-7.5	11.1	5.6	-5.6	-16.4	9.4
FTSE Latibex All-Share	71.0	9.0	10.3	11.1	-12.4	11.4	1.8	14.0
FTSE Latibex Top	67.8	7.3	14.8	7.5	-9.4	12.9	4.5	11.7
Sectors[2]								
Financial and real estate services	**-1.6**	**10.5**	**-27.1**	**-3.7**	**-8.7**	**-5.1**	**-12.6**	**2.7**
Banks	-1.8	10.6	-29.0	-4.5	-9.9	-5.3	-12.9	2.7
Insurance	15.5	0.1	-12.8	-0.9	-0.2	2.3	-13.8	2.9
Real estate and others	-2.3	17.6	-26.1	-5.6	3.3	-10.9	-15.0	-2.9
Oil and energy	0.8	3.9	6.1	-4.8	12.0	-1.4	0.9	9.6
Oil	32.6	9.9	-4.5	-2.2	16.3	2.4	-18.0	8.4
Electricity and gas	-4.3	2.0	8.9	-6.1	10.6	-2.5	7.6	9.9
Basic materials, industry and construction	**2.0**	**2.6**	**-8.6**	**-1.8**	**2.4**	**2.7**	**-11.5**	**18.2**
Construction	-7.9	9.9	-3.4	-7.3	6.7	4.5	-6.5	18.7
Manufacture and assembly of capital goods	7.8	-19.3	-10.4	8.1	-6.2	-5.2	-6.8	19.9
Minerals, metals and metal processing	48.8	14.2	-25.3	1.8	-6.2	7.5	-27.2	7.5
Engineering and others	9.9	-9.9	-21.3	-2.0	7.2	-1.4	-23.9	14.4
Technology and telecommunications	**-9.0**	**7.5**	**-5.5**	**-0.2**	**-0.9**	**4.8**	**-8.8**	**9.0**
Telecommunications and others	-14.2	-5.1	-8.2	-0.1	-8.5	-5.3	6.1	3.7
Electronics and software	7.9	36.6	-0.1	-0.3	11.9	17.4	-23.7	17.3
Consumer goods	**0.2**	**-2.1**	**-16.7**	**-8.4**	**12.4**	**-6.5**	**-13.5**	**14.3**
Textile, clothing and footwear	2.6	-10.4	-23.1	-12.4	15.0	-10.8	-14.4	17.2
Food and drink	-5.4	5.2	-8.4	3.7	1.7	1.4	-14.4	12.2
Pharmaceuticals and biotechnology	-6.4	14.6	-6.4	-5.6	11.5	-0.8	-10.3	11.6
Consumer services	**-8.0**	**23.3**	**-19.7**	**-4.0**	**-1.1**	**-4.9**	**-11.1**	**2.0**
Motorways and car parks	-3.1	39.5	-34.7	-1.8	-0.1	-9.9	-27.2	2.7
Transport and distribution	-15.7	32.3	-11.5	-3.4	1.7	-2.7	-7.5	0.3

Source: BME and Thomson Datastream.

1 Change on the previous quarter.

2 IGBM sectors. Under each sector, data are provided for the most representative sub-sectors.

The Ibex 35 gained 8.2% in the first quarter of the year…

The Ibex 35, which had recorded falls of 2.4% and 9%, respectively in the last two quarters, to accumulate losses of 15% in 2018, recovered part of these losses and closed the first quarter of the year with a gain of 8.2%. It therefore stands at similar levels to those of October of last year. This upward movement followed the trend of the leading benchmark European indices,[10] although the gains in the Spanish market, together with those of the German market, were more moderate. Similarly, the price rises in European markets took place in an environment of low volatility and falls in trading volume. The gain of the leading Spanish market index stood at

10 The main European indices also recorded positive figures: Eurostoxx 50 (11.7%), Dax 30 (9.2%), Cac 40 (13.2%), with particularly strong gains in the Mib 30, which rose by 16.2%.

halfway between the gain recorded by the shares of small-cap companies (9.4%) and those of medium-cap companies (4.7%), whose performance was more discreet. The indices representing Latin American shares that are listed in euros, FTSE Latibex All-Share and FTSE Latibex Top, recorded gains of 14% and 11.7%, respectively, in the first quarter thanks to the positive performance of Latin American markets[11] (especially Brazil, with a noteworthy improvement in its economy,[12] as well as the appreciation of their currencies with regard to the euro.[13]

… with gains in most market sectors, which were sharper in the construction, capital goods, textile, technology and energy and oil sectors.

With the exception of real estate companies, every sector ended the quarter with gains, although they were very unevenly spread among sectors and companies, as indicated above. A more detailed analysis reveals that the most significant rises corresponded to companies from the construction and the capital goods sectors, as well as from the consumer goods sector. Within consumer goods companies, there was a noteworthy recovery in the leading company in the textile sector (Inditex), which, despite strong competition from e-commerce, managed to improve its sales and increase its profits. Also noteworthy was the performance of companies from the oil and energy sector, as well as those from the technology and software sector. On the one hand, electricity companies benefited from the expected maintenance of low interest rates, which reflects their defensive nature, and expectations of stability in their profits thanks to low and stable finance costs. On the other hand, the leading oil company benefited from the recovery in oil prices.[14] In addition, technology and Internet companies once again rose significantly, supported by the recovery in share prices in the technology sector in the United States and investor confidence in their business models.

The increase in share prices in the quarter, together with the slowdown in growth of corporate profits, led to an increase in the price-earnings (P/E) ratio to 11.5, from the lowest level since 2012 that it had recorded in December (10.8).

Significant gains in share prices in the quarter, together with the slowdown in the expected growth in corporate profits over the coming months, allowed the price-earnings (P/E) ratio of the Ibex 35 to rise from 10.8 in the middle of December — its lowest level since the first half of 2012 — to 11.5 in March. As shown in Figure 13, the P/E ratios of the most significant stock market indices worldwide recorded a similar performance over the quarter, incorporating the recovery in their share prices. Despite the improvement in prices, with the exception of the US S&P 500 index, every ratio stands below its average value over the period between 2010 and 2019.

11 The main stock market indices of the Brazilian and Mexican markets recorded gains of 8.5% and 3.9%, respectively, in the local currency.

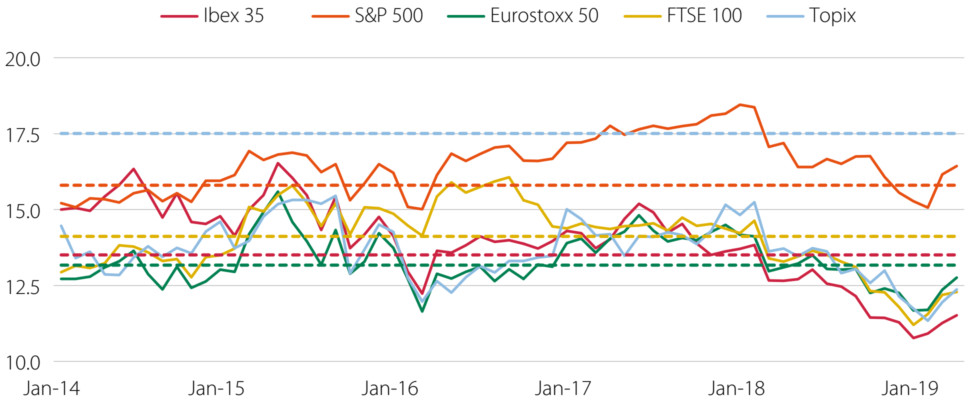
12 Brazil's GDP grew by 1.1% and 1% in 2018 and 2017, respectively, after falls of 3.3% and 3.5% in 2016 and 2015, respectively.

13 In the first quarter of the year, the Brazilian real gained 1% with regard to the euro, while the Mexican peso gained 3.4%.

14 Oil prices rose by 27.1% in the first quarter of 2019, to stand at 68 dollars per barrel.

Price-earnings ratio[1] (P/E ratio)

FIGURE 13



Source: Thomson Datastream. Data to 15 March.

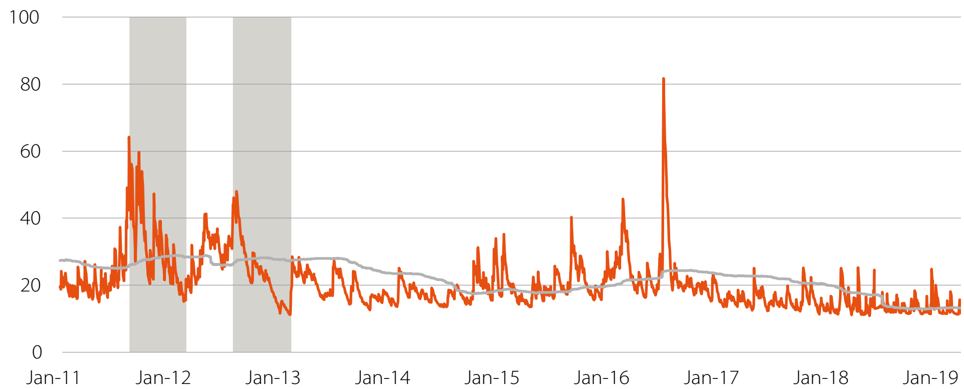
1 Twelve-month forward earnings.

Volatility, which remained at low levels for most of 2018, continued to fall in the early months of 2019, as it did in the leading international stock markets.

Ibex 35 volatility, which had remained at low levels for most of 2018, recording temporary upturns associated with the different episodes of uncertainty affecting markets in the United States and in Italy, once again fell in the first quarter of this year, as it did in the leading international markets. Thus, at the end of the quarter, Ibex 35 volatility fell to levels of close to 12%, slightly below the average of this period (13.0%) and the average of the previous quarter (14.5%), as well as the figures recorded in 2018 (close: 18.6% and average: 15.1%). The movements in volatility in the Spanish market were similar to those of other European indices, such as the Eurostoxx 50 (11.4% at the end of the quarter), but its changes were less pronounced than those seen in US indices[15] (the volatility of the Dow Jones moved within a range of over 20 percentage points over the quarter).

Historical volatility of the Ibex 35

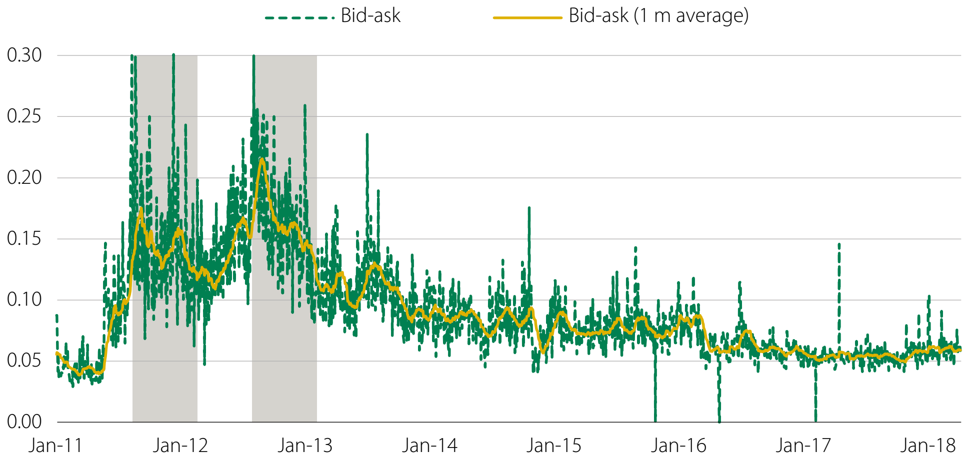
FIGURE 14



Source: Thomson Datastream and CNMV. The blue line tracks conditional volatility and the red line unconditional volatility. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013. The first ban affected financial institutions and the second ban applied to all companies.

15 At the end of March, the volatility of the Dow Jones and VIX indices stood at values of close to 10.4% and 13.7%, respectively, while at year-end 2018, it had reached values of over 29% and 22%, respectively.

Ibex 35 liquidity. Bid-ask spread FIGURE 15



Source: Thomson Datastream and CNMV. The curve represents the bid-ask spread of the Ibex 35 along with the average of the last month. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013. The first ban affected financial institutions and the second ban applied to all companies.

Liquidity remained at satisfactory levels, although there was a slight widening of the bid-ask spread.

Ibex 35 liquidity, as measured by the bid-ask spread, remained stable in the first quarter of the year, with a slight widening in the spread, despite the fall in market volatility. This spread stood at 0.057% in the first quarter of the year, at levels similar to those of the previous quarter, but below the historic average of this indicator (0.092%).

Despite the rise in share prices, trading of Spanish equity fell by 17.4% in year-on-year terms.

Despite the recovery in stock market prices, trading in Spanish equity fell once again in the first quarter of the year, as the environment of low volatility discourages some types of trading, such as algorithmic trading and HFT.[16] Consequently, trading of Spanish equity securities fell by 17.4% in year-on-year terms, to under 194 billion euros.[17] This was in line with the trend of most European stock markets, in which there was also a significant fall in trading.[18] Average daily trading volumes on the electronic market stood at 1.7 billion euros in the first quarter, 25.9% down on the same period of 2018 and below the average for that year (2.29 billion euros). In fact, average daily trading on the electronic market reached its lowest level in recent years, which also reflects the fall in trading of international stock markets, the fragmentation of the Spanish market and the fall in BME's market share in favour of other competing trading venues and markets.

16 High Frequency Trading

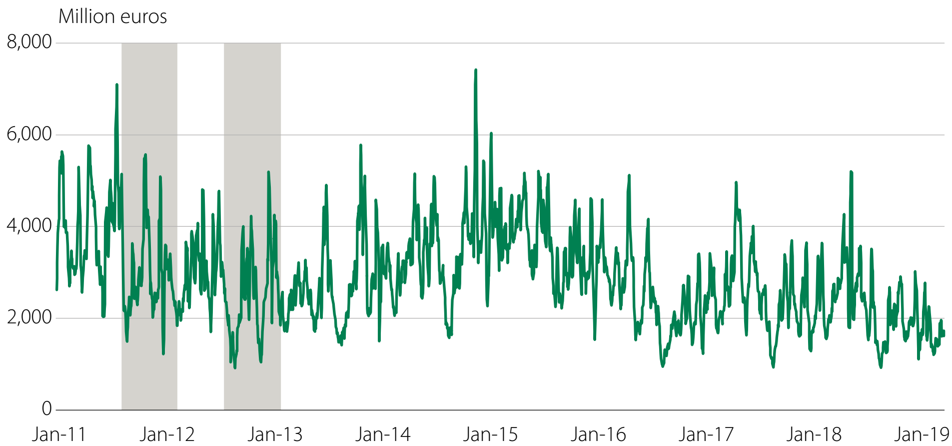
17 Of this amount, it is estimated that around 58% corresponds to lit trading and the rest to dark trading. Both types of trading are subject to market rules, but they fall under different transparency regimes. It should be noted that the competing trading venues and markets of BME account for approximately 60% of dark trading and that their market share, only taking into account lit trading, stood at 35.9% in the first quarter of the year.

18 According to data from the World Federation of Exchanges, trading up to February fell sharply year-on-year in the leading European stock markets: by 16.7% in Euronext, 26.3% in London Stock Exchange Group (London and Italy), 22.6% in Deutsche Borse and 13.9% in Cboe Europe.

The trading of Spanish securities on competing trading venues and markets other than the home market accounted for 45% of total trading in the first quarter.

With regard to the distribution of the trading of Spanish securities, a total of 106 billion euros corresponded to the Spanish regulated market (25.9% down in year-on-year terms), while 87.5 billion euros (4.2% down year-on year) were traded on competing trading venues and markets. Despite a slight fall in trading on competing training venues and markets, their market share continued to grow to stand at almost 45% of total trading, a record high (almost 5 percentage points up on year-end 2018). With regard to trading abroad, the regulated market Cboe Global Markets (Cboe), which operates through two different order books, BATS and Chi-X, remains particularly important. It recorded trading of almost 68 billion euros in the first quarter (7.7% down year-on-year), which amounted to almost 80% of the total amount traded abroad and almost two thirds of the total amount of Spanish securities traded in the home market (see Table 17). Similarly, as was the case in previous quarters, the distribution of trading between the two order books continues to shift in favour of BATS. For its part, the operator Turquoise continued to lose market share, to stand at around 11% compared with 12% in the previous quarter, while the other operators maintained their relative importance (close to 11.5%).

Daily trading on the Spanish stock market[1] FIGURE 16



Source: CNMV. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

1 Moving average of five trading days.

Trading in Spanish shares listed on Spanish exchanges[1]

TABLE 6

Million euros

	2015	2016	2017	2018	III 18	IV 18	I 19
Total	**1,161,482.8**	**877,413.3**	**932,771.9**	**930,616.1**	**193,976.4**	**220,784.3**	**193,634.8**
Listed on SIBE	1,161,222.9	877,402.7	932,763.1	930,607.1	193,974.0	220,782.2	193,633.8
BME	925,978.7	631,107.2	633,385.7	579,810.4	116,051.4	131,345.2	106,068.5
Chi-X	150,139.9	117,419.4	117,899.2	106,869.7	25,272.1	26,217.5	22,921.2
Turquoise	35,680.5	51,051.8	44,720.1	42,833.4	10,543.9	10,423.7	9,520.5
BATS	35,857.6	44,839.8	75,411.6	171,491.3	37,214.3	42,639.2	45,011.1
Other	13,566.2	32,984.5	61,346.5	29,552.2	4,892.3	10,156.5	10,112.5
Open outcry	246.1	7.5	8.1	8.2	2.0	2.1	0.9
Madrid	19.4	3.2	1.8	0.8	0.1	0.7	0.0
Bilbao	7.5	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	219.1	4.1	6.3	7.4	1.9	1.4	0.9
Valencia	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Second market	13.8	3.2	0.7	0.8	0.4	0.0	0.1
Pro memoria							
Foreign shares traded on BME	12,417.7	6,033.0	6,908.0	3,517.1	841.5	717.0	901.5
Alternative stock market (MAB)	6,441.7	5,066.2	4,987.9	4,216.3	762.0	1,152.9	932.6
Latibex	258.7	156.7	130.8	151.6	31.6	43.0	38.8
ETFs	12,633.8	6,045.2	4,464.1	3,027.6	456.6	623.7	467.1
Total BME trading	957,990.5	648,418.9	649,885.3	590,732.0	118,145.5	133,772.4	108,409.4
% Spanish shares on BME vs. total Spanish shares	80.1	71.9	68.3	62.6	60.1	59.8	55.1

Source: Bloomberg and CNMV.

1 Includes trading of Spanish shares subject to market or MTF rules (lit plus dark). Spanish shares on Spanish stock exchanges are those with a Spanish ISIN that are admitted to trading on the regulated market of Bolsas y Mercados Españoles (BME), i.e., not including the Alternative Stock Market (MAB). Foreign shares are those which are admitted to trading on the regulated market of BME whose ISIN is not Spanish.

The issuance of new shares in the first quarter was concentrated in capital increases with pre-emptive subscription rights and, to a lesser extent, in scrip dividends. Similarly, no IPO took place during the quarter.

In the first quarter of the year, equity issues made on Spanish markets amounted to 1.9 billion euros (see Table 7), 42% down on the amount issued in the same quarter of 2018, although in that period there was the capital increase with non-monetary consideration corresponding to the issue of Bankia shares for the takeover of Banco Mare Nostrum (BMN). In the first few months of 2019, most of the capital increases that took place were capital increases raising funds with pre-emptive subscription rights, including that of Cellnex Telecom for close to 1.2 billion euros. The other capital increases consisted primarily of scrip dividends, which amounted to less than one quarter of the amount recorded in the same period of 2018.[19] Despite the positive performance of share prices, there was no IPO in the quarter, although various companies are preparing to go public in the coming months.

19 It is common in the first few days of January each year for several large companies, mainly from the electricity and energy sector, to distribute scrip dividends.

Capital increases and public offerings

TABLE 7

	2016	2017	2018	II 18	III 18	IV 18	I 19
NUMBER OF ISSUERS[1]							
Total	**45**	**47**	**46**	**12**	**19**	**24**	**14**
Capital increases	45	45	45	12	19	24	14
Public offers for subscription	3	3	2	0	0	2	1
Public offering of shares	2	4	1	0	0	0	0
NUMBER OF ISSUES[1]							
Total	**81**	**91**	**81**	**14**	**19**	**26**	**15**
Capital increases	79	84	80	14	19	26	15
Public offers for subscription	4	4	2	0	0	2	1
Public offering of shares[2]	2	7	1	0	0	0	0
CASH AMOUNT[1] (million euros)							
Capital increases raising funds	**13,846.7**	**25,787.7**	**7,389.9**	**426.1**	**1,776.7**	**3,288.2**	**1,586.0**
With pre-emptive subscription right	6,513.3	7,831.4	888.4	63.0	109.2	141.5	1,552.5
Without pre-emptive subscription right	807.6	956.2	200.1	0.0	0.0	200.1	10.0
Accelerated book builds	0.0	821.8	1,999.1	0.0	89.0	1,910.1	0.0
Increases with non-monetary consideration[3]	1,791.7	8,469.3	2,999.7	0.0	1,263.4	557.3	0.0
Capital increases by debt conversion	2,343.9	1,648.8	388.7	223.9	153.3	9.9	13.0
Other	2,390.2	6,060.2	913.9	139.2	161.7	469.4	10.5
Bonus issues[4]	**5,898.3**	**3,807.3**	**3,939.7**	**133.1**	**2,120.3**	**323.5**	**311.0**
Of which, scrip dividend	5,898.3	3,807.3	3,915.2	133.1	2,120.3	299.0	311.0
Total capital increases	**19,745.1**	**29,595.0**	**11,329.6**	**559.2**	**3,787.8**	**3,586.7**	**1,897.0**
Secondary offerings	**506.6**	**2,944.5**	**733.7**	**0.0**	**0.0**	**0.0**	**0.0**
***Pro memoria*: MAB transactions**[5]							
Number of issuers	15	13	8	3	3	2	4
Number of issues	21	15	12	3	4	2	4
Cash amount (million euros)	219.7	129.9	164.5	95.7	52.3	3.4	17.3
Capital increases	219.7	129.9	164.5	95.7	52.3	3.4	17.3
Of which, public offer for subscription	9.7	17.1	0.0	0.0	0.0	0.0	0.0
Public offering of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV.

1 Transactions registered with the CNMV. Not including figures for MAB, ETFs or Latibex.
2 Transactions linked to the exercise of green shoe options are separately accounted for.
3 Capital increases for non-monetary consideration have been stated at market value.
4 In scrip dividends, the issuer gives existing shareholders the option of receiving their dividend in cash or converting it into shares in a bonus issue.
5 Transactions not registered with the CNMV.

3.2 Fixed-income markets

The agreement between the Italian government and the European Union and confirmation by the ECB that changes in its monetary policy would be slow and progressive led to new falls in the yield on both public and private…

Both Spanish and European bond markets, in which asset yields had relaxed in the final months of the previous year, continued this trend in the first quarter of 2019 following confirmation of the agreement between the Italian government and the European authorities and the announcement by the European Central Bank[20] that economic growth will be weaker than expected (in the context of contained

20 In its statement at the end of January, the ECB reported weaker than expected economic growth and that inflation was contained. Subsequently, at the start of March, it postponed the first interest rate rise until the end of 2019 or later. In addition, it announced that in September it would implement a new round of liquidity injections into the banking sector (TLTRO III).

inflation), which results in postponement of decisions to tighten monetary policy and leaves the door open to new expansive measures.

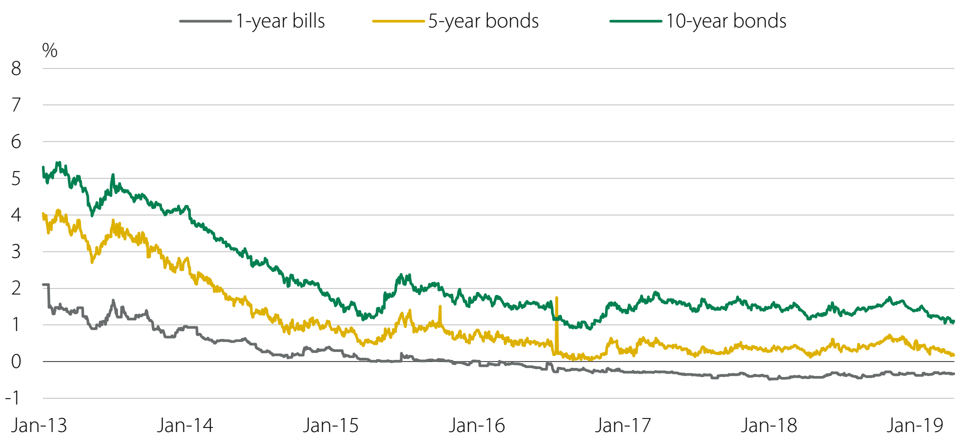
… debt assets, which were larger at the longer maturities, in line with the main European economies.

Yields on Spanish medium and long-term government bonds, like those of the other main European economies, recorded slight falls, which were sharper at the longer maturities as they incorporated market expectations that the accommodative monetary policy would be maintained for some time. Despite the end of the ECB's corporate sector purchase programme[21], long-term corporate bond yields also fell. The credit risk premium on Spanish public debt remained unchanged at 117 bp, as the size of the fall in Spanish yields was similar to that of German yields.

Fixed-income issuance by Spanish issuers remained stable in the first quarter, with noteworthy growth in issues of bonds, both registered with the CNMV and abroad.

In a context of interest rates with a downward bias and market stability, debt issuance by Spanish issuers remained stable in the first quarter of the year in year-on-year terms, although the movements were not evenly spread across the different types of assets. There was noteworthy year-on-year growth in issues of bonds (both those registered with the CNMV and those registered abroad), while issues of other assets fell, particularly of asset-backed securities. Following a second half of the year marked by uncertainties and market instability, non-financial issuers took advantage of the buoyant moment in the market to obtain medium and long-term financing. In addition, banks may have delayed their financing decisions as they wait for the ECB to implement its announced third round of liquidity injections for the sector in September.[22]

Spanish government debt yields FIGURE 17



Source: Thomson Datastream.

The yield on short-term public debt continued in negative figures in the first quarter of the year (and for the fourth year running), while the yield on commercial paper rose slightly.

Yields on short-term debt rose slightly in the first quarter, taking them away from the area of historic lows at which they stood at year-end 2018. However, these movements were uneven in the different maturities and between government debt and private fixed income, as the rises in the case of the latter were more significant.

21 The corporate sector purchase programme ended on 19 December 2018, but it maintains the reinvestment of principal payments from maturing securities. At 29 March 2019, The ECB held a corporate bond portfolio of 177.7 billion euros acquired under this programme.

22 The ECB will carry out a new programme of targeted longer-term refinancing operations (TLTRO III), which will begin in September and end in March 2021, with a duration of two years.

Yields on government bonds remained in negative figures for the short-term stretch of the curve for the fourth consecutive year, due to confirmation and continuation over time of the ECB's ultra-expansive monetary policy. Accordingly, at the end of March, the secondary market yields on 3-month, 6-month and 12-month Spanish Treasury Bills stood at -0.40%, -0.36% and -0.32%, respectively. These levels are slightly higher than those of the previous quarter, but close to the minimum annual yield of -0.40% established by the ECB[23] in its debt purchase programmes (the deposit facility rate). All auctions of Spanish Treasury Bills on the primary market were again settled at negative rates, with the latest auctions, in March, settled at a similar rate to those in previous auctions. The yields on short-term corporate debt show greater dispersion, with yields on 6-month and 12-month commercial paper standing at similar values to those recorded at year-end 2015. Yields when issued ranged between the 0.25% for the 3-month benchmark and the 0.65% for commercial paper at 12 months (see Table 8).

Short-term interest rates[1] TABLE 8

%

	Dec-16	Dec-17	Dec-18	Jun-18	Sep-18	Dec-18	Mar-19
Spanish Treasury Bills							
3 months	-0.47	-0.62	-0.50	-0.52	-0.46	-0.50	-0.40
6 months	-0.34	-0.45	-0.41	-0.43	-0.41	-0.41	-0.36
12 months	-0.25	-0.42	-0.33	-0.34	-0.37	-0.33	-0.32
Commercial paper[2]							
3 months	0.18	0.39	0.24	0.25	0.31	0.24	0.25
6 months	0.20	0.26	0.19	0.12	0.26	0.19	0.41
12 months	0.15	0.19	0.07	0.18	0.36	0.07	0.65

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Interest rates at issue.

The yield on long-term government bonds fell thanks to confirmation of the ECB's accommodative monetary policy.

Yields on medium-term and long-term government bonds began the quarter with falls, which became more intense following confirmation that the ECB would maintain its accommodative monetary policy, in an environment that is showing a slowdown in economic growth in the euro area and that is not without both economic and political uncertainties. The 3-year and 5-year yields fell by around 20 bp to their lowest level since the first half of 2017, while the yield on the benchmark 10-year bond fell by almost 30 bp to its lowest level since the third quarter of 2016. Following these movements, the average yield on 3-year, 5-year and 10-year government bonds in March stood at -0.14%, 0.24% and 1.14%, respectively (see Table 9). Over the quarter, the yield curve changed from recording negative figures up to the 3-year term to showing negative figures up to the 4-year term, with slightly positive values only recorded as from the 5-year benchmark.

23 The ECB has maintained this yield limit for the reinvestment of assets acquired under its purchase programmes.

Yields on corporate debt followed a relatively similar path to that of government debt, but with greater dispersion, as the 5-year benchmark hardly changed. Yields generally returned to levels similar to those at the start of the second half of 2018, when the ECB's corporate sector purchase programme remained active (the central bank currently maintains the reinvestment of maturing securities). At the end of the first quarter, yields on 3-, 5- and 10-year corporate bonds stood at 0.44%, 0.56% and 1.32%, respectively, with falls of close to 20 bp for 3- and 10-year bonds and stability for 5-year bonds. The risk premium for 10-year corporate bonds, which over much of 2018 had recorded negative values, followed the trend that began at the end of the year, when it rose into positive figures, and grew to 18 bp.

Corporate bond yields also fell to levels similar to when the ECB's corporate sector purchase programme was active, although falls were uneven across maturities.

Medium and long-term bond yields[1] TABLE 9

%

	Dec-16	Dec-17	Dec-18	Jun-18	Sep-18	Dec-18	Mar-19
Government bonds							
3 year	0.04	-0.09	-0.04	-0.06	0.00	-0.04	-0.14
5 year	0.35	0.31	0.44	0.41	0.49	0.44	0.24
10 year	1.44	1.46	1.43	1.38	1.51	1.43	1.14
Corporate bonds							
3 year	0.69	0.44	0.67	0.44	0.47	0.67	0.44
5 year	1.43	0.41	0.55	0.36	0.59	0.55	0.56
10 year	2.14	1.16	1.52	1.23	1.41	1.52	1.32

Source: Thomson Datastream, Reuters and CNMV.

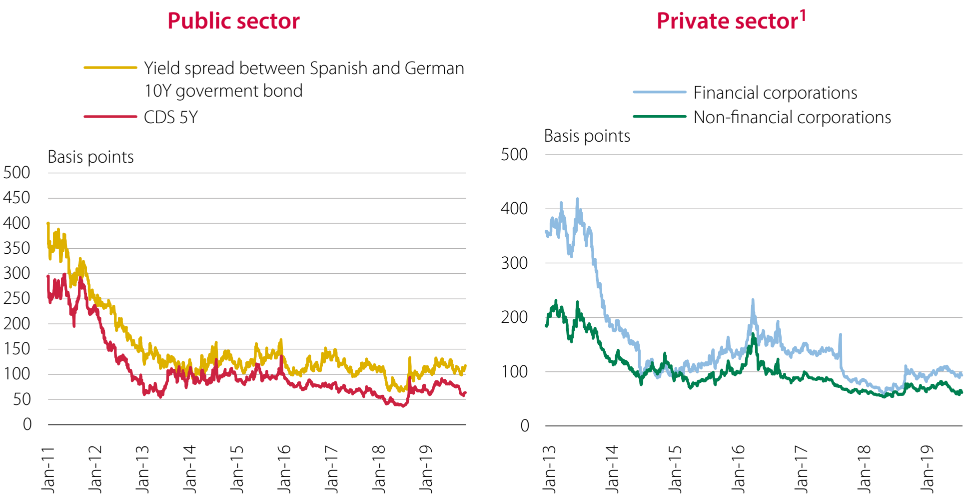
1 Monthly average of daily data.

The sovereign risk premium began the quarter with slight rises, which gradually disappeared following confirmation of the expansive policy of the European Central Bank and the reduction in political uncertainties relating to Italian public finances. In this context, the risk premium, measured as the spread between the Spanish sovereign bond and the 10-year German bond, stood at 117 bp at the end of March, similar to the figure recorded at the end of 2018, after fluctuating between 98 bp and 129 bp. In contrast, the risk premium assessed through the CDS of the Spanish sovereign bond, whose market is less liquid than that of the German bond, fell slightly, by 16 bp, and closed the quarter at 64 bp (see left-hand panel of Figure 18).

The sovereign risk premium remained unchanged in the first quarter and ended March at 117 bp.

Risk premium paid by Spanish issuers

FIGURE 18



Source: Thomson Datastream and CNMV.

1 Simple average of the 5-year CDS of a sample of issuers.

The risk premiums of the private sectors of the economy fell slightly, which might be due to the positive impact of maintenance of the ECB's accommodative monetary policy on their finance costs and the availability of greater liquidity.

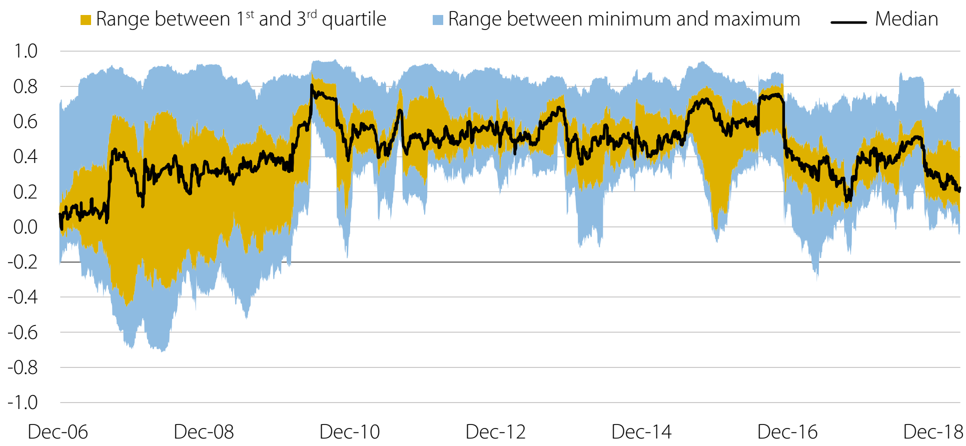
The risk premiums of the private sub-sectors of the economy performed slightly differently from that of sovereign debt and fell slightly. This may be the result of expectations that the ECB's monetary policy will be maintained and its positive impact on companies' finance costs, particularly for the most indebted companies. In the case of banks, although, *a priori*, a scenario of rising interest rates favours the widening of their interest margin, the new scenario described by the ECB, with no interest rate hikes in the short-term and with a third round of targeted longer-term refinancing operations (TLTRO III), may have benefits for the banking sector, as it facilitates their access to long-term low-cost financing and might prevent an increase in non-performing assets in an environment of economic slowdown and rising risks. In addition, both in the case of non-financial companies and in the case of banks, despite the end of the ECB's debt purchase programmes,[24] markets continue to benefit from the reinvestment of maturing securities acquired under these programmes. As shown in the right-hand panel of Figure 18, the average of the CDS of financial institutions stood at 94 bp at the end of March, below the 108 bp at which it started the year. In the case of non-financial companies, the average risk premium was 64 bp, compared with 78 bp at the end of the previous quarter.

The correlation between asset prices, which had decreased in the second half of 2018, has remained stable in the first three months of 2019 at low levels.

The level of correlation between the prices of the different financial asset classes, which fell significantly in the second half of 2018 at the time of the falls in stock prices, has remained stable at low levels and stands at its lowest point since the end of 2017. This value is lower than the average recorded over the last decade and is compatible with investors discriminating between the different types of asset available.

24 It should be remembered that these included the Corporate Sector Purchase Programme (CSPP), the Covered Bond Purchase Programme (CBPP3) and the Asset-Backed Securities Purchase Programme (ABSPP).

Indicator of correlation between asset classes[1, 2] FIGURE 19



Source: Thomson Datastream and CNMV.

1 The indicator of correlation between asset classes is based on pairs of correlations calculated using daily data in 3-month windows. The asset classes are sovereign debt, corporate fixed income of financial and non-financial firms and Ibex 35 stocks of financial companies, utilities and the other sectors. A high correlation between Spanish asset classes points to gregarious investor behaviour, possibly due to the heightened volatility typical at times of stress. Also, diversification would hold out fewer advantages since it would be harder to avoid exposure to sources of systemic risk.

2 As from 7 June 2017, the calculation of the return on the asset class corresponding to financial fixed income excludes the CDS on the 5-year senior debt of Banco Popular.

The volume of fixed-income issues registered with the CNMV rose slightly in the first quarter, although it remains at low levels.

The CNMV registered 20.53 billion euros of gross bond issues in the first quarter of 2019, almost 2% up on the same period of 2018. The issue volume, which remains at low levels, is the result of the existence of other attractive sources of alternative financing, including: i) issues abroad, which continue to rise; ii) traditional bank lending, which is more easily accessible than in previous periods and therefore many companies are taking advantage at this time to refinance under improved conditions;[25] and iii) the third round of financing for financial institutions announced by the ECB, which reduced their need to borrow on capital markets.

Bond issues grew, particularly as a result of the issues by the SAREB, while issues of asset-backed securities and mortgage covered bonds fell.

The largest falls in issues (both in absolute and in relative terms) were seen in issues of asset-backed securities (-77%) and mortgage covered bonds (-46%). In the case of the former, financial institutions might have delayed their financing in the quarter pending publication by the ECB of its specific long-term financing programme for banks, while the latter remained limited by the balance of outstanding mortgage loans, which continues to fall,[26] with activity therefore limited to renewal of the maturing issues. In addition to these factors, there is the regulatory uncertainty relating to the fact that Spain has not yet transposed to national law the new Securitisation Regulation, which entered into force on 1 January 2019. The growth in issues was concentrated in uncovered bonds, which increased threefold, thanks to three issues by the SAREB (Management Company for Assets Arising from the Banking Sector Reorganisation) for an aggregate amount of over 10.2 billion euros. Also

25 According to Bank of Spain data, the balance of lending to non-financial companies rose to February by 1.7% year-on-year, to stand at 886.97 billion euros.

26 Up to February, according to Bank of Spain data, the outstanding balance of mortgage loans to households fell by 1.1% year-on-year to 518.84 billion euros.

noteworthy was an issue by BBVA of contingent convertible perpetual preferred securities aimed at institutional investors for an amount of 1 billion euros.

Gross fixed-income issues registered with the CNMV

TABLE 10

					2018		2019
Registradas en la CNMV	**2015**	**2016**	**2017**	**2018**	**III**	**IV**	**I[1]**
NOMINAL AMOUNT (million euros)	**136,607**	**139,028**	**109,487**	**101,296**	**11,793**	**58,433**	**20,531**
Mortgage covered bonds	31,375	31,643	29,824	26,575	5,050	14,700	2,745
Territorial covered bonds	10,400	7,250	350	2,800	0	2,800	0
Non-convertible bonds and debentures	39,100	40,170	30,006	35,836	1,431	28,246	13,620
Convertible/exchangeable bonds and debentures	53	0	0	0	0	0	0
Asset-backed securities	28,370	35,505	29,415	18,145	1,048	7,913	1,270
Commercial paper[2]	27,310	22,960	17,911	15,089	3,264	4,525	1,896
Securitised	2,420	1,880	1,800	240	0	0	0
Other commercial paper	24,890	21,080	16,111	14,849	3,264	4,525	1,896
Other fixed-income issues	0	1,500	981	0	0	0	0
Preferred shares	0	0	1,000	2,850	1,000	250	1,000
Pro memoria:							
Subordinated issues	5,452	4,279	6,505	4,923	933	1,301	350
Underwritten issues	0	421	0	0	0	0	0
					2018		**2019**
Abroad by Spanish issuers	**2014**	**2015**	**2016**	**2017**	**III**	**IV**	**I[3]**
NOMINAL AMOUNT (million euros)	**66,347**	**58,587**	**84,760**	**89,358**	**20,423**	**19,491**	**17,684**
Long term	33,362	31,655	61,095	38,425	7,662	6,337	7,845
Preferred shares	2,250	1,200	5,844	2,000	500	0	1,051
Subordinated debt	2,918	2,333	5,399	2,250	0	0	1,000
Bonds and debentures	28,194	28,122	49,852	34,175	7,162	6,337	5,794
Asset-backed securities	0	0	0	0	0	0	0
Short term	32,984	26,932	23,665	50,933	12,762	13,153	9,839
Commercial paper	32,984	26,932	23,665	50,933	12,762	13,153	9,839
Securitised	0	0	0	0	0	0	0
***Pro memoria:* Gross issues of subsidiaries of Spanish companies resident abroad**							
					2018		**2019**
	2014	**2015**	**2016**	**2017**	**III**	**IV**	**I[3]**
NOMINAL AMOUNT (million euros)	**55,286**	**56,674**	**66,790**	**91,446**	**22,001**	**25,533**	**13,241**
Financial institutions	14,875	11,427	19,742	43,234	9,284	15,564	7,990
Non-financial companies	40,411	45,247	47,585	48,212	12,717	9,969	5,252

Source: CNMV and Bank of Spain.

1 Data to 31 December.

2 The figures for commercial paper issues correspond to the amounts placed.

3 Data to 28 February.

Fixed-income issuance abroad by Spanish issuers in the first few months of the year (data to February) continued to grow, with an amount of close to 17.7 billion euros, 19% up on the same period of 2018. The largest increase corresponded to long-term debt issues, which grew by almost 56%, while short-term commercial paper issues remained virtually unchanged. Companies seem to be taking advantage of low rates to obtain long-term financing, as long-term issues accounted for 44% of the total, compared with 34% in the same period of 2018. In relative terms, issues abroad accounted for 47%[27] of the total amount issued by Spanish companies in 2018 and the preliminary data for 2019 indicate that its relative importance will tend to remain constant or even increase. Finally, issues by subsidiaries of Spanish companies in the rest of the world rose once again, to stand at 13.24 billion euros, 23% more than in 2018. Almost 60% of this amount corresponded to banks, while the rest corresponded to non-financial companies. Spanish companies have continued to issue debt through their subsidiaries as part of their process of internationalisation and growth in other regions.

Debt issues abroad also increased, which were once again largely concentrated in long-term debt.

Creation of a macro-prudential authority in Spain (AMCESFI) EXHIBIT 3

The aim of macro-prudential policy is to preserve the stability of the financial system as a whole by strengthening its resilience and mitigating systemic risks. Policies related to financial stability have traditionally been focused on the banking system, placing special emphasis on the size of banks. However, the last financial crisis revealed that other agents and activities performed outside the banking business might be a source or a channel for transmitting systemic risk in certain circumstances. Since then, and following the recommendations of the G20, national authorities and international institutions have been working on improving the resilience of activities and entities related to non-bank financial intermediation (previously known as shadow banking) and on building an institutional and regulatory framework for detecting and analysing systemic risks that will include all segments of the financial system. At a European level, this work resulted in the European Systemic Risk Board (ESRB) being created in 2011 to be responsible for macro-prudential oversight of the European Union's financial system and for preventing and mitigating systemic risk.

In 2011, the ESRB issued a recommendation[1] that called on EU countries to designate an authority responsible for macro-prudential oversight. This recommendation was justified as a result of the improvement in the effectiveness of macro-prudential policy as responsibility for taking measures to maintain financial stability was placed at a national level. In addition, in its latest review of the Spanish financial system,[2] the IMF also indicated, among other aspects, that Spain should establish a Systemic Risk Council for inter-agency coordination on systemic risk factors, surveillance, and system-wide financial sector policies. Following the recommendation by the ESRB, most Member

27 In 2017, issues abroad accounted for 46% of the total amount issued.

States of the European Union (with the exception of Italy) have established their macro-prudential authorities in recent years. They have done this by creating a new authority with the participation of the pre-existing supervisory authorities or, in many cases, by designating the central bank as the authority, or by setting up an inter-agency cooperation structure with a leading role for the central bank or the pre-existing integrated supervisory authority.

Although the formal creation of an actual macro-prudential authority in Spain began in the final months of last year, it is true that over many years there was a committee with similar functions to those planned for the macro-prudential authority. This precursor committee, which was called CESFI (Spanish acronym: Financial Stability Committee), was set up in 2006 and was made up of members representing the Bank of Spain, the CNMV, the Directorate-General for Insurance and Pension Funds, and the Ministry of Economy. It was established with the aim of facilitating the sharing of information between these institutions in matters relating to financial stability, improving risk prevention mechanisms and performing crisis simulation exercises and stress testing in order to coordinate the management of a financial crisis with a potentially systemic impact. The CESFI met frequently during the most complicated years of the sovereign debt crisis in Europe, and was then inactive for several years, before resuming its meetings in 2018. During this more recent stage, the CESFI decided to start up a project to create a macro-prudential authority in Spain that would meet the recommendations of both the ESRB and the IMF.

As a result of this decision, a draft Royal Decree creating the Macro-prudential Authority Financial Stability Board (Spanish acronym: AMCESFI) was published at the end of 2018. This draft Royal Decree was submitted to public consultation until 26 December and finally approved on 1 March.[3] According to the content of this Royal Decree, the AMCESFI, which held its first meeting in April, replaces the CESFI and seeks to improve the coordination of macro-prudential oversight at a national level and help to prevent or mitigate systemic risks, which should aid the financial system to support rather than hamper economic growth. The Authority is made up of a Board, a Technical Committee as support body and the subcommittees that the Board decides to create. These bodies are made up of representatives from the Ministry of Economy and Business, the Bank of Spain and the CNMV, with the possibility of inviting other public authorities, such as the Fund for Orderly Bank Restructuring (Spanish acronym: FROB) or the Independent Authority for Fiscal Responsibility. The Minister of Economy and Business chairs the Board and the Governor of the Bank of Spain is the vice-chairperson. In the Technical Committee, the Deputy Governor of the Bank of Spain acts as chairperson and the Secretary General of the Treasury and International Financing is the vice-chairperson.

AMCESFI's mission is, firstly, to monitor and analyse those factors that might affect systemic risk and, secondly, to issue the opinions, warnings and recommendations that it deems appropriate in view of its prior analyses. It may also make macro-prudential policy recommendations to supervisors for them to take specific measures. The recipients of the Authority's recommendations must explain how they will comply with them or provide appropriate justification, as the case may be, of the reasons why they deem it unnecessary or inappropriate to follow them. Supervisory powers are maintained by the competent national authorities that have exercised them to date, which have more information and experience in monitoring the supervised entities. Their independence is therefore respected.

In addition, sector supervisors must inform the AMCESFI in advance about their intention to activate, recalibrate or deactivate any of their macro-prudential tools. In particular, they must report on measures relating, for example, to capital buffer requirements, the establishment of limits to sectoral concentration, the setting of conditions for the granting of loans and other operations, or the application of higher risk weightings for real estate exposures. The measures falling under the remit of the CNMV include the suspension of redemptions of collective investment scheme units, decisions aimed at strengthening the level of liquidity of collective investment schemes and the banning or restriction of short selling. Before this, Royal Decree-Law 22/2018, of 14 December, establishing macro-prudential tools granted additional powers to the Bank of Spain, the CNMV and the Directorate General for Insurance and Pension Funds to address possible risks to the Spanish financial system from a macro-prudential perspective. In the case of investment funds, the CNMV is granted the power to set, in certain circumstances, liquidity requirements for collective investment schemes and undertakings.[4]

Finally, in order to contribute towards maintaining financial stability within the European Union, the requirement to cooperate with the macro-prudential authorities of other Member States as well as with the competent European institutions is regulated. The AMCESFI will be accountable through the preparation of an annual report and the appearance of the Authority's chairperson before the corresponding committee of the Lower House of Parliament.

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1 Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3). https://www.esrb.europa.eu/pub/pdf/recommendations/ESRB_2011_3.en.pdf?da108dbb14efccdf98f4544534e2ef4e

2 Spain Financial System Stability Assessment. IMF Country Report No. 17/321. This assessment is part of bilateral supervision under Article IV of the IMF's Articles of Agreement.

3 Royal Decree 102/2019, of 1 March, creating the Macro-prudential Authority Financial Stability Board, establishing its legal regime and implementing certain aspects relating to macro-prudential tools.

4 Royal Decree-Law 22/2018, of 14 December, establishing macro-prudential tools.

4 Market agents

4.1 Investment vehicles

Financial CIS

Mutual funds

Assets managed by mutual funds fell by 2.3% in 2018 due to the negative yield of their assets, in a year of lower net subscriptions by unit-holders.

Assets managed by mutual funds fell slightly in 2018 (-2.3%) following 5 years of continuous rises and stood at 259.1 billion euros at the end of the year. The fall in assets managed by the funds is the result of the negative return of the assets in their portfolios, which could not be offset by the volume of net subscriptions, which is lower than in previous years. The average weighted return of the funds stood at -4.89% in 2018, which is mainly the result of the sharp falls in prices on equity markets worldwide and, particularly, during the last part of the year. Net subscriptions were positive in the first three quarters of 2018 and negative in the last quarter (-3.94 billion euros) coinciding with the period of greatest stock market falls.[28] In the year as a whole, net subscriptions stood at 7.84 billion euros, one third of the figure recorded in 2017.

Higher-risk fund categories continued to attract the largest subscriptions, at least until the third quarter of the year.

As in previous years and in a context of low interest rates, unit-holders continued to demonstrate a greater preference for fund categories with a higher risk and, at the same time, higher expected returns. This performance was relatively stable until the period of stock market turmoil in the final part of the year, which led to an increase in investors' risk aversion and, consequently, put a stop to investments in higher-risk funds. However, in the year as a whole, the category that attracted the highest volume of net subscriptions was that of global funds (meaning funds allowed to follow a flexible investment policy regarding the percentage invested in equity and fixed income), with a total of 9.45 billion euros, followed by international equity categories (3.86 billion euros) and, at some distance, mixed equity funds (2.49 billion euros) and euro equity funds (1.79 billion euros). In contrast, lower-risk fund categories – guaranteed fixed-income and equity funds, fixed-income funds and mixed fixed-income funds – recorded net redemptions in 2018 (see Table 11).

The yield on funds' portfolio was negative in every category except that of guaranteed fixed income funds, in which it was close to zero.

The returns on the funds in 2018 were negative in all categories except in that of guaranteed fixed-income funds, with a return of close to zero (0.09%). The worst performing categories were pure equity categories, as a result of the falls in stock market prices in the year: -13% in the case of euro equity funds and -12.34% in the international equity category. The categories with a mixed component recorded a somewhat less negative performance: -6.45% for the mixed equity category and -5.69% for the global fund category.

28 In fact, there was a rise in the volume of sight deposits of households in the last quarter of close to 25 billion euros, which may be partly due to the fact that they are considered a safe-haven asset.

Net mutual fund subscriptions

TABLE 11

Million euros

	2016	2017	2018	2018 I	II	III	IV
Total mutual funds	**13,823.2**	**21,325.0**	**7,841.8**	**8,913.3**	**2,014.0**	**856.1**	**-3,941.6**
Fixed-income[1]	8,243.5	-3,638.0	-2,766.0	-1,145.9	30.0	-887.2	-762.9
Mixed fixed-income[2]	-4,750.8	2,890.5	-1,063.7	731.3	448.9	-295.7	-1,948.2
Mixed equity[3]	-5,194.5	5,498.6	2,485.9	1,878.4	40.4	634.5	-67.4
Euro equity[4]	-538.0	2,549.7	1,790.0	1,768.8	257.4	-124.6	-111.6
International equity[5]	-32.5	4,514.0	3,864.1	1,638.4	813.6	961.8	450.3
Guaranteed fixed-income	-3,699.6	-3,262.6	-575.8	-198.5	-262.9	-168.1	53.7
Guaranteed equity[6]	5,465.9	-309.5	-667.2	-268.5	-368.1	-245.6	215.0
Global funds	7,801.3	13,405.9	9,448.9	5,055.6	2,695.5	1,836.9	-139.1
Passively managed[7]	5,603.4	-4,585.0	-2,790.4	-1,275.4	-1,447.8	-77.2	10.0
Absolute return[7]	943.5	4,287.3	-1,899.6	729.0	-193.1	-794.1	-1,641.4

Source: CNMV. Estimated data.

1 Includes: Euro fixed-income, International fixed-income and Money market funds (from III-11, Money market funds compass those engaging in Money markets and Short-term money market investments, Circular 3/2011).

2 Includes: Euro mixed fixed-income and International mixed fixed-income.

3 Includes: Euro mixed equity and International mixed equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed equity and Partial guarantee.

7 New categories since II-09. All Absolute return funds were previously classified under Global Funds.

The number of funds continued to fall in 2018, especially those with target returns, which were not renewed at maturity.

The reduction in the supply of funds that began in 2013 due to the streamlining undertaken by management companies continued in 2018, although at a more moderate rate than in previous years. The number of funds at the end of the year stood at 1,725, 16 down on year-end 2017. The largest fall, in line with the negative trend of recent years, was recorded in passively managed funds, with 30 fewer funds. The passively managed category covers both non-guaranteed funds with a target return and funds whose investment policy consists of tracking a certain stock market index. All the de-registrations of passively managed funds except one corresponded to non-guaranteed funds with a target return (29 de-registrations), followed in importance by the de-registrations of guaranteed equity funds with a target return (25 de-registrations) and guaranteed fixed-income funds with a target return (12 de-registrations). In many of the funds, the return target expired in 2018 and their managers decided not to set a new target.

The number of unit-holders exceeded 11 million at the end of the year, with particular growth in higher-risk categories, which attracted the greatest number of subscriptions.

Unlike the changes in assets managed and the number of funds, the number of unit-holders rose by 9% during 2018, and closed the year with a total of 11.2 million, compared with 10.3 million unit-holders at the end of the previous year. For these purposes, it should be taken into account that one single unit-holder is calculated as many times as the number of contracts that the unit-holder has in different funds. Therefore, the recorded increase might partially be the result of diversification among a higher number of funds. In the passively managed fund categories (with non-guaranteed target turn), as well as in guaranteed equity and fixed income funds with a target return, the number of unit-holders fell, in line with the fall in the number of funds. In contrast, the global fund and international equity fund categories recorded significant increases in the number of unit-holders (414,000 and 360,000 unit-holders, respectively).

Main mutual fund variables*

TABLE 12

Number of funds

	2016	2017	2018	2018 I	II	III	IV
Total mutual funds	**1,805**	**1,741**	**1,725**	**1,748**	**1,724**	**1,719**	**1,725**
Fixed-income[1]	306	290	279	284	281	280	279
Mixed fixed-income[2]	148	155	168	154	161	166	168
Mixed equity[3]	168	176	184	177	176	179	184
Euro equity[4]	112	111	113	106	108	111	113
International equity[5]	201	211	236	224	229	229	236
Guaranteed fixed-income	122	79	67	76	69	67	67
Guaranteed equity[6]	198	188	163	186	175	167	163
Global funds	203	225	242	241	236	238	242
Passively managed[7]	220	202	172	201	187	181	172
Absolute return[7]	106	104	99	99	102	99	99
Assets (million euros)							
Total mutual funds	**237,862**	**265,195**	**259,095**	**271,264**	**273,774**	**274,645**	**259,095**
Fixed-income[1]	74,226	70,564	66,889	69,325	68,881	67,936	66,889
Mixed fixed-income[2]	40,066	43,407	40,471	43,766	43,979	43,641	40,471
Mixed equity[3]	16,311	22,387	23,256	23,860	24,040	24,783	23,256
Euro equity[4]	8,666	12,203	12,178	13,714	14,282	13,985	12,178
International equity[5]	17,679	24,065	24,405	24,808	26,484	27,648	24,405
Guaranteed fixed-income	8,680	5,457	4,887	5,311	4,983	4,780	4,887
Guaranteed equity[6]	15,476	15,418	14,556	15,204	14,664	14,294	14,556
Global funds	20,917	35,512	42,137	39,909	42,634	44,676	42,137
Passively managed[7]	23,602	19,478	16,139	18,098	16,687	16,580	16,139
Absolute return[7]	12,215	16,706	14,173	17,269	17,140	16,307	14,173
Unit-holders							
Total mutual funds	**8,253,611**	**10,287,454**	**11,217,569**	**11,019,934**	**11,435,155**	**11,332,911**	**11,217,569**
Fixed-income[1]	2,347,984	2,627,547	2,709,547	2,711,617	2,840,000	2,726,028	2,709,547
Mixed fixed-income[2]	1,043,798	1,197,523	1,188,157	1,239,848	1,252,577	1,245,007	1,188,157
Mixed equity[3]	448,491	584,408	624,290	618,234	615,754	623,901	624,290
Euro equity[4]	395,697	710,928	831,115	877,146	929,169	833,260	831,115
International equity[5]	1,172,287	1,865,367	2,225,366	2,071,665	2,186,454	2,237,176	2,225,366
Guaranteed fixed-income	307,771	190,075	165,913	184,036	175,776	166,125	165,913
Guaranteed equity[6]	552,445	527,533	494,660	519,396	505,574	499,529	494,660
Global funds	658,722	1,086,937	1,501,730	1,236,975	1,366,657	1,444,064	1,501,730
Passively managed[7]	746,233	638,966	543,192	601,927	554,981	552,612	543,192
Absolute return[7]	565,325	858,170	930,641	959,090	1,008,213	1,002,252	930,641
Return[8] (%)							
Total mutual funds	**0.98**	**2.42**	**-4.89**	**-1.04**	**0.23**	**0.02**	**-4.13**
Fixed-income[1]	0.52	-0.13	-1.44	-0.26	-0.68	-0.09	-0.42
Mixed fixed-income[2]	0.27	1.10	-4.27	-0.84	-0.53	-0.10	-2.85
Mixed equity[3]	1.19	3.23	-6.45	-1.69	0.62	0.43	-5.83
Euro equity[4]	2.61	11.16	-13.01	-1.77	1.88	-1.29	-11.94
International equity[5]	4.15	8.75	-12.34	-3.51	3.59	0.88	-13.06
Guaranteed fixed-income	-0.03	0.72	0.09	1.02	-1.30	-0.75	1.14
Guaranteed equity[6]	0.19	1.61	-1.33	0.35	-1.16	-0.86	0.34
Global funds	1.99	4.46	-5.69	-1.58	0.66	0.49	-5.27
Passively managed[7]	1.16	2.13	-3.16	-0.51	0.23	-0.15	-2.74
Absolute return[7]	0.38	1.44	-4.81	-0.93	-0.57	-0.23	-3.14

Source: CNMV. * Data for funds that have filed financial statements (i.e., not including those in the process of winding-up or liquidation).

1 Includes: Euro fixed-income, International fixed-income and Money market funds (from III-11, Money market funds compass those engaging in Money markets and Short-term money market investments, Circular 3/2011).

2 Includes: Euro mixed fixed income and International mixed fixed income.

3 Includes: Euro mixed equity and International mixed equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed equity and Partial guarantee.

7 New categories since II-09. All Absolute return funds were previously classified under Global Funds.

8 Annual return for 2016, 2017 and 2018. Quarterly data comprise non-annualised quarterly returns.

According to the provisional data for February this year, the assets managed by funds recovered during the first two months of 2019 all of the loss recorded in 2018. The assets under management of mutual funds grew by 2.8% to over 266 billion euros at the end of February, while the number of funds and unit-holders fell slightly, to stand at 1,714 funds and 11.17 million unit-holders. The increase in assets under management over these first two months of the year is largely the result of the positive returns of the equity portfolios given the rises in stock market prices.

During the first two months of 2019, funds recovered all the assets under management lost during 2018 due to the price rises of their equity assets.

The liquidity conditions of the fixed-income portfolio improved substantially between 2010 and 2014. Since then, the proportion of less-liquid assets has remained at moderate levels, fluctuating between 7% and 9% of the funds' private fixed-income portfolios. During 2018, the proportion of these assets fell by 1 pp, from 8.4% at year-end 2017 to 7.4% at year-end 2018. At 31 December 2018, the total volume of less-liquid assets amounted to 3.49 billion euros, accounting for 1.35% of funds' total assets under management.

The percentage of less-liquid assets in funds' private fixed-income portfolios fell by 1% in 2018 and stood at the lowest levels recorded over recent years…

The proportion of less-liquid assets fell slightly in all the different categories of fixed-income assets over 2018 (see Table 13). Fixed-income assets with a rating below AA are the category in which less-liquid assets fell most in absolute terms, by 393 million euros from June until December 2018, as a result of funds selling these assets. Securitisations remained the category in which less-liquid assets accounted for a higher percentage, standing at 90.5%. However, these assets account for a very small portion of funds' portfolios.

… with falls in all categories of fixed-income assets.

Estimated liquidity of mutual fund assets TABLE 13

	Less-liquid investments[1]					
	Million euros			% of total volume of asset type		
Asset type	**Jun-18**	**Sep-18**	**Dec-18**	**Jun-18**	**Sep-18**	**Dec-18**
Financial fixed income rated AAA/AA	163	177	169	18.3	15.5	14.4
Financial fixed income rated below AAA/AA	1,972	1,891	1,579	7.2	6.8	6.1
Non-financial fixed income	974	880	790	4.9	4.4	4.2
Securitisations	969	943	955	94.7	94.8	90.5
AAA-rated securitisations	108	90	101	100.0	100.0	100.0
Other securitisations	861	853	853	94.1	94.3	89.5
Total	**4,079**	**3,890**	**3,493**	**8.3**	**7.8**	**7.4**
% of mutual fund assets	**1.49**	**1.42**	**1.35**			

Source: CNMV.

1 Less-liquid assets are those private fixed-income assets with a maturity longer than one year and for which there is not a representative number of intermediaries willing to buy and sell them with a normal market spread.

Open-ended investment companies (SICAVs)

The number of SICAVs registered with the CNMV continued to fall in 2018, with 114 de-registrations and only 6 new registrations, to stand at 2,833…

As in 2017, the number of SICAVs registered with the CNMV fell notably, as there were 114 de-registrations and only 6 new registrations, although the total quantity of these undertakings remains at a similar level to that of recent years. At the end of the year, there was a total of 2,713 registered SICAVs, compared with 2,833 at the end of December 2017. Most of the de-registrations (67) were the result of liquidation processes, 32 were absorbed in merger processes and 15 were transformed into another type of entity (9 into limited liability companies, 5 into public limited companies and 1 into a hedge fund). The fall in the number of entities was also reflected in the number of shareholders, which fell by 1.2% to 416,029. Almost all SICAVs (over 99%) were listed on the Alternative Stock Market.

… which, together with the fall in their yield, led to an 11.4% drop in assets managed.

The assets managed by these CIS fell by 11.4% from 31.43 billion euros at the end of 2017 to 27.84 billion euros at the end of 2018. Of this change, 7.1 pp was the result of redemptions as well as by the SICAVs that were de-registered, while the remaining 4.35 pp was the result of their negative returns, in line with that of mutual funds (-4.89%). The average assets managed by SICAVs fell from 11.1 million euros in 2017 to 10.3 million in 2018.

In the first two months of 2019, the assets managed by SICAVs grew, but the number of entities continued to fall.

In the first two months of 2019, the assets under management of SICAVs grew by 4.9% to end February at 29.28 billion euros. This increase was mainly the result of the increase in the prices of equity assets held. A total of 2,694 SICAVs were registered with the CNMV at the end of February, 17 fewer than at year-end 2018.

Hedge funds

Hedge funds, which continue to have a very low share of collective investment in Spain,…

Hedge funds continue to have a very low share of collective investment in Spain as they account for less than 1% of total assets. This collective investment segment is made up of two types of vehicle: those that invest directly in assets (hedge funds) and those that invest through other hedge funds (funds of hedge funds). In both cases, the vehicle may be set up as a fund or a company.

… recorded a slight increase in assets managed in 2018 (1.6%), which was concentrated, above all, in pure hedge funds.

Aggregate hedge fund assets grew slightly by 1.6% in 2018, to end November at 2.81 billion euros. In the case of hedge funds, assets managed rose by 45.7 million euros to 2.34 billion euros, while assets managed by funds of hedge funds hardly recorded any change, falling by 1 million euros, to 467.8 million.

The yield on the portfolio in this segment was negative, in line with the falls in prices of equity assets.

The yield on the portfolio was in line with market performance, particularly that of equity markets, and was negative for all categories: while hedge funds recorded a yield of -5.15% on the portfolio to November, funds of hedge funds recorded a yield of -1.16%. As with mutual funds, the lower yield took place in the last quarter of the year.

The number of these vehicles registered with the CNMV at year-end 2018 amounted to 56, 1 more than at the end of the previous year. As shown in Table 13, the number of hedge funds rose from 47 to 49, following 4 new registrations and 2 de-registrations, while the number of funds of hedge funds fell from 8 to 7, as a result of 1 de-registration. In the case of the latter, 6 of the 7 have the form of a fund (3 of which are in the process of liquidation) and 1 is in the form of a company. In

December 2018, this company managed assets of 254.7 million euros, a higher amount than that of all the 6 set up in the form of a fund.

The total number of unit-holders and shareholders in the segment recorded few changes in 2018, with only 15 fewer than at year-end 2017, to stand at a total of 7,237 at the end of December 2018. However, an analysis by category reveals that there was an increase, in the case of hedge funds, of 21.4% during the first 11 months of the year, to 4,437, while the number for funds of hedge funds fell by 22.1% to end November, to stand at 2,800 unit-holders. These changes are the result of the 2 new registrations (in net terms) of hedge funds and the de-registration of the fund of hedge funds.

… and the number of unit-holders and shareholders recorded few changes as the increase for hedge funds was offset by the fall for funds of hedge funds.

In the first two months of the year, the number of hedge funds rose by 1, to stand at 50, while the number of funds of hedge funds remained at 7.

Main hedge fund and fund of hedge fund variables TABLE 14

				2018			
	2016	2017	2018[1]	I	II	III	IV[1]
FUNDS OF HEDGE FUNDS							
Number	7	8	7	8	7	7	7
Unit-holders	1,237	3,596	2,800	3,605	2,797	2,802	2,800
Assets (million euros)	293.7	468.7	467.8	470.0	469.0	472.2	467.8
Return (%)	0.90	-1.66	-1.16	-0.37	-0.27	0.42	-0.94
HEDGE FUNDS							
Number	41	47	49	47	46	49	49
Unit-holders	2,930	3,656	4,437	3,973	4,077	4,350	4,437
Assets (million euros)	1,889.2	2,298.2	2,343.9	2,329.7	2,335.3	2,397.7	2,343.9
Return (%)	4.32	7.84	-5.15	-0.91	1.35	-0.75	-4.84

Source: CNMV.

1 Data to November, except number of vehicles, which are shown to December.

Real estate CIS

Despite the improvement in the construction and real estate sector since 2015, the key variables of real estate CIS continued to fall in 2018. This is due to the fact that real estate investment in Spain has been mainly channelled over recent years through SOCIMIs (Spanish REIT companies). SOCIMIs are public limited companies whose corporate purpose consists, in a similar way to funds and real estate investment companies, either of investing in real estate for lease or in indirect investment through the purchase of shares or holdings in the share capital of other SOCIMI or similar foreign entities (known as REITs). SOCIMIs are listed in a specific segment of the MAB, which was particularly buoyant over 2018, with 20 new companies joining, resulting in a total of 64 companies at the end of the year.

Despite the improvement in the construction and real estate sector, the key variables of real estate CIS continued to fall as a result of the shift of the business towards SOCIMIs.

Real estate funds record poorer performance, as only two remain, which are both in the process of liquidation.

In contrast, over recent years, real estate funds have suffered significant redemptions, which has led them to initiate liquidation processes, with the consequent de-registration of most of them at the end of said process. Thus, from a maximum of 9 real estate funds with total assets under management of 8.59 billion euros in the middle of 2008, there were 2 funds (both in the process of liquidation) at the end of 2018, with total assets under management of 309 million euros. Over 2018, a third fund existing at the end of 2017 ended its liquidation process and was removed from the CNMV's register.

In contrast, real estate investment companies recorded a significant increase in assets under management (18%), although this amount was insignificant within the total amount of collective investment.

Unlike real estate funds, real estate investment companies recorded an 18% increase in assets under management in 2018, although the total volume of investments raised by this type of vehicle was insignificant as a proportion of Spanish collective investment as a whole, since it amounted to 752.7 million euros at the end of 2018. Net subscriptions were slightly positive, which contributed towards a moderate increase in assets under management of 1.8 pp, while the rest of the change in assets, a little over 16 pp, was the result of the positive yields obtained in the period. The number of real estate investment companies remained constant at 4 throughout 2018, with one of them in the process of liquidation.

Foreign UCITS marketed in Spain

The assets managed by foreign UCITS continued to grow in 2018, exceeding 180 billion euros at the end of the third quarter (37% of total assets under management of the CIS marketed in Spain)…

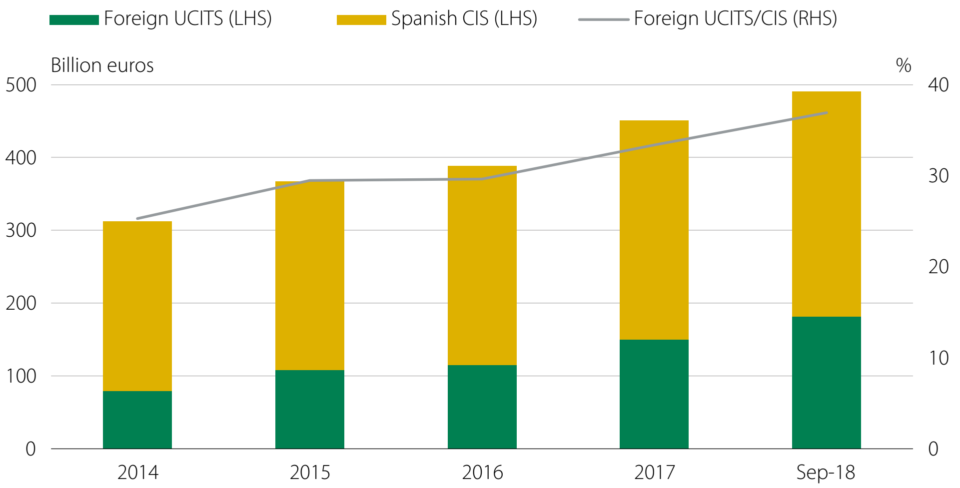
The volume of foreign UCITS marketed in Spain has continued to grow over recent years. It has risen tenfold since 2008 and grown from 18 billion euros at the end of 2008 to 180.92 billion euros in September 2018. The increase recorded in just the first three quarters of 2018 stood at 30.5 billion euros, an increase in the year of 20.3% compared with year-end 2017. As shown in Figure 20, this strong rate of growth has led to the proportion of foreign UCITS in relation to total CIS growing significantly over the last five years to stand at 37% in September 2018.

… although it should be noted that the entry into force of Circular 2/2017, which requires entities to submit a greater volume of information, might mean that the data are not fully comparable with those existing up to the end of 2017.

It is important to note that the entry into force of CNMV Circular 2/2017, of 25 October, amending Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered with the CNMV, implies the obligation for all distributors of foreign CIS to submit to the CNMV a greater number of data with regard to the product distributed in Spain. This new circular allows the CNMV to have broader and better quality information as it unambiguously clarifies the party required to submit the information in each case. This legislative change might mean that the information collected prior to 31 December 2017 is not fully comparable with that received as from said date.

Assets of foreign UCITS marketed in Spain[1]

FIGURE 20



Source: CNMV.

1 As from the first quarter of 2018, the data on unit-holders and investment volume are estimated with the data received to date: 99.2% of the reporting entities in the first quarter, 95.5% in the second and 93.9% in the third.

In line with the trend of recent years, the number of foreign UCITS registered with the CNMV grew in 2018 by 11 entities, thus ending the year with a total of 1,024 vehicles of this type (429 funds and 595 companies). This increase was exclusively due to the high number of registrations of investment companies, as the number of funds fell by 26. As in previous years, most of the new registrations corresponded to vehicles from Luxembourg and Ireland, with 18 and 16 more, respectively. In contrast, the number of French vehicles with investors in Spain fell by 29.

The number of Foreign UCITS registered with the CNMV rose by 11 in 2018, to a total of 1,024 vehicles (429 funds and 595 companies).

Outlook

The changes in the collective investment industry in 2018 seem to indicate that the rate of expansion that began in 2013 tended to become more moderate as the volume of net subscriptions by unit-holders (a little under 8 billion euros) was almost three times lower than the figure recorded in 2017, partly as a result of stock market turmoil at the end of the year. At the same time, foreign funds continue to attract a substantial investment volume that was higher than that received by Spanish funds. In principle, the environment of growing household income in the context of such low interest rates continues to favour investment in the investment fund industry and, in particular, higher-risk categories. However, the slowdown in economic growth, which might have an impact on household income, together with a savings rate at historic lows, may limit the volume of resources that are eventually allocated to these products, bearing in mind, furthermore, the high level of sensitivity that unit-holders show at times of market turbulence. The possibility that any of the sources of uncertainty present in markets might end up triggering temporary upturns in volatility may well increase investors' risk aversion and lead to significant redemptions.

The outlook for collective investment is moderately positive, although factors such as the low household savings rate or the possibility of new market turmoil might limit the volume of resources eventually allocated to these products.

4.2 Provision of investment services

Different types of entities may provide investment services in Spain including credit institutions, the main providers of these services, and broker-dealers and brokers.

Different types of entities may provide investment services in Spain including, firstly, credit institutions and, secondly, broker-dealers and brokers. The former are by far the main providers of these services in Spain and account for the bulk of fee revenue in the different types of services (over 90% of the total). The latter continue to account for a relative proportion of some importance, particularly in order transmission and execution, although they also offer a wide range of services (see Table 15). In addition to these entities, specific investment services are also provided by financial advisory firms and portfolio management companies.

Fees received for investment services. 2018 TABLE 15

Million euros

	Broker-dealers and brokers[1]	Credit institutions (CI)	Total	% (CI) /total
Total investment services	**385**	**3,649**	**4,033**	**90.5**
Placement and underwriting	12	187	199	94.0
Securities trading	180	367	547	67.1
Asset management	29	459	488	94.1
Administration and custody	44	562	606	92.7
Mutual fund distribution	119	2,074	2,193	94.6

Source: CNMV and Bank of Spain.

1 Includes portfolio management companies.

The CNMV performs supervisory tasks relating to compliance with conduct of business rules with regard to all of them and, in addition, in the case of brokers and broker-dealers, portfolio management companies and financial advisory firms, it performs prudential oversight.

This heading presents a detail of the evolution of the economic/financial activity and position of entities whose supervision, both prudential and relating to compliance with conduct of business rules, corresponds to the CNMV, which are broker-dealers and brokers, portfolio management companies[29] and financial advisory firms. Information is also offered on the provision of investment services by credit institutions that are authorised to do so and over which the CNMV conducts supervisory work with regard to compliance with conduct of business rules in the market and with regard to clients.

Credit institutions

At the end of 2018, a total of 114 Spanish credit institutions were registered with the CNMV to provide investment services, 8 fewer than in 2017.

At the end of 2018, a total of 114 Spanish credit institutions (banks, savings banks and credit cooperatives) were registered with the CNMV to provide investment services, 8 fewer than in 2017. This fall is linked to consolidation of the reorganisation process of the banking sector as a result of the financial crisis. A total of 467 foreign credit institutions were authorised to provide investment services in Spain at the end of the year, one fewer than in the previous year. 412 of the registered foreign credit institutions operated under the freedom to provide services and 56 through

29 With regard to the latter, at the close of 2018 one single entity was registered with the CNMV, the same as at the end of 2017. There is no specific sub-heading on this type of entity due to its lesser relative importance compared with the others.

branches. Almost all these credit institutions were from Member States of the European Union.

Table 16 shows the revenue of credit institutions from the provision of securities services and marketing of mutual funds and non-bank financial products.[30] In 2018, the revenue from security services and marketing mutual funds stood at close to 3.65 billion euros (2.1% down in 2017), which accounts for 25% of total fees of credit institutions. This percentage has fluctuated over recent years between 25% and 28%, which shows the importance of this revenue for said institutions.

In 2018, these institutions received almost 3.65 billion euros from providing securities services and marketing mutual funds, which accounts for almost a quarter of their total fee revenue.

Credit institution revenue from providing securities services and marketing non-bank financial products

TABLE 16

Million euros

	2015	2016	2017	2018	% of credit institutions' total fees
From securities services	**1,476**	**1,334**	**1,436**	**1,575**	**10.6**
Placement and underwriting	218	190	231	187	1.3
Securities trading	488	410	457	367	2.5
Administration and custody	632	596	551	562	3.8
Asset management	138	138	197	459	3.1
Marketing of non-bank financial products	**4,211**	**4,389**	**4,380**	**4,268**	**28.6**
Mutual funds[1]	2,296	2,187	2,290	2,074	13.9
Pension funds[1]	458	520	498	492	3.3
Insurance	1,224	1,446	1,330	1,507	10.1
Other	236	236	262	195	1.3
Pro memoria:					
From securities services and marketing of mutual funds	3,772	3,521	3,726	3,649	24.5
Total revenue from fees	**13,617**	**13,486**	**14,295**	**14,924**	**100.0**

Source: Bank of Spain.

1 2018 estimated data.

Broker-dealers and brokers

In 2018, the activity of broker-dealers and brokers remained negatively affected by growing competition from credit institutions in the provision of financial services and the shift of part of the trading of Spanish stock markets towards other trading platforms established outside Spanish territory. Accordingly, aggregate profit before tax shrank by 34% on the figure for 2017, to stand at 116.4 million euros. In this context, investment firms are gradually reorienting their business model, in which their main and traditional source of income (for order processing and execution)

Competition from credit institutions and the increase in equity trading outside Spanish stock markets have had a negative effect on the profit of broker-dealers and brokers (-34% in 2018).

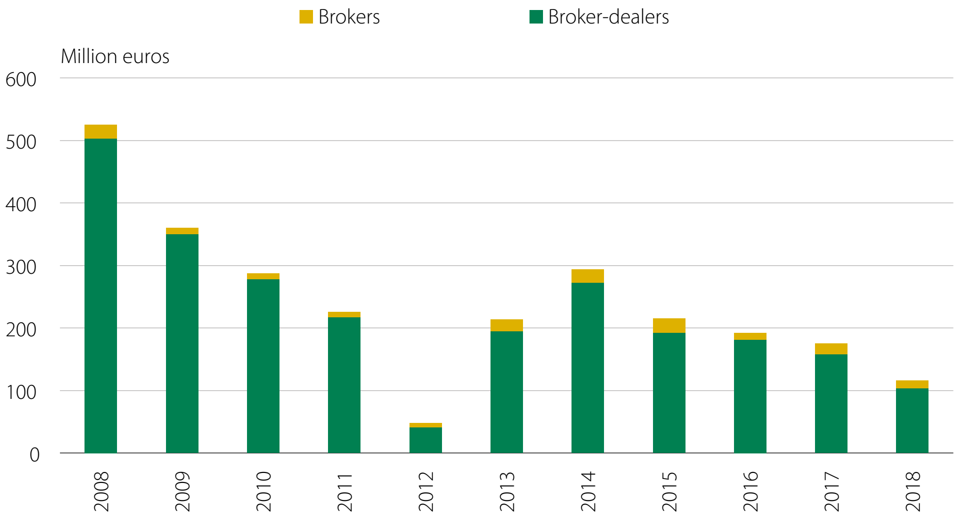
30 It is important to indicate that in 2017 there was an accounting modification that affected the confidential statements that credit institutions submit to the Bank of Spain. This means that the data for 2017 and 2018 are not fully comparable with those from previous years.

has been losing relative importance, while other lines of business, such as marketing CIS, portfolio management and investment advice, have been gaining importance.

The number of registered firms grew once again (2 more, to 91), following years of adjustments in the sector.

At the end of 2018, the CNMV's register contained a total of 91 broker-dealers and brokers, 2 more than at the end of 2017 (7 new registrations and 5 de-registrations). This increase, which began in 2017, breaks the downward trend of recent years, which was related to the adjustments undertaken in the sector. As usual, over half of the entities provided services in the European Union under the free provision of services, specifically 48 (2 more than at year-end 2017) and only 5 entities maintained branches in other countries. For their part, the number of foreign entities that provide investment services in Spain continued to grow in 2018, both under the free provision of services (rising from 2,816 to 2,941) and by means of a branch (from 53 to 61).

Aggregate pre-tax profit of investment firms[1] FIGURE 21



Source: CNMV.

1 Except financial advisory firms and portfolio management companies.

The profit of broker-dealers fell by 34.5% in 2018 to 104 million euros as a result of the decrease in most of the fee income…

Aggregate pre-tax profits of broker-dealers fell by 34.5% in 2018 to 104 million euros. As shown in Table 14, the gross margin of these firms fell by 16.6%, mainly as a result of the significant reduction in net fee income, which dropped from 402 million euros in 2017 to 296 million in 2018. As mentioned above, there was a gradual change in the importance of different types of financial services within fee income. Fees for order processing and execution, which remains the most important, fell by 26.3% in 2018, to stand at 160.3 million euros (just before the crisis, these fees amounted to 700 million euros). The fees associated with portfolio management and CIS marketing, which had grown significantly in 2017, also fell sharply. In contrast, fees from investment advisory services, although they remain very low, grew by 72.1% to stand at 9.6 million euros (see Table 17). In addition, the amount of the fee income classified under "Other" (29% of total fees received), which are associated with the ancillary services provided by broker-dealers, fell by 10.8%.

Aggregate income statement (December 2018)

TABLE 17

Thousand euros

	Broker-dealers			Brokers		
	Dec-17	Dec-18	% change	Dec-17	Dec-18	% change
1. Net interest income	21,377	73,969	246.0	3,127	1,583	-49.4
2. Net fee income	402,154	296,037	-26.4	120,194	135,782	13.0
2.1. Fee income	549,298	414,595	-24.5	142,323	156,624	10.0
2.1.1. Order processing and execution	217,601	160,320	-26.3	20,459	20,018	-2.2
2.1.2. Initial placement and underwriting	17,553	11,090	-36.8	3,427	1,120	-67.3
2.1.3. Securities administration and custody	38,200	42,958	12.5	924	824	-10.8
2.1.4. Portfolio management	49,720	13,505	-72.8	12,492	15,412	23.4
2.1.5. Investment advisory services	5,555	9,562	72.1	11,572	25,725	122.3
2.1.6. Search and placement	1,500	543	-63.8	0	0	-
2.1.7. Market trading	0	0	-	0	0	-
2.1.8. Marketing CIS	83,354	55,483	-33.4	59,398	63,821	7.4
2.1.9. Other	135,815	121,134	-10.8	34,052	29,704	-12.8
2.2. Fee expense	147,144	118,558	-19.4	22,129	20,842	-5.8
3. Profit from financial investments	43,725	27,088	-38.0	1,139	-51	-
4. Net exchange differences	4,353	283	-93.5	-578	85	-
5. Other operating income and expense	24,154	16,331	-32.4	-1,128	-364	67.7
GROSS PROFIT MARGIN	**495,763**	**413,708**	**-16.6**	**122,754**	**137,035**	**11.6**
6. Operating expenses	342,176	315,951	-7.7	103,052	121,611	18.0
7. Depreciation, amortisation and other charges	7,369	11,267	52.9	2,782	3,381	21.5
8. Impairment losses on financial assets	854	653	-23.5	-10	12	-
OPERATING PROFIT (LOSS)	**145,364**	**85,837**	**-41.0**	**16,929**	**12,031**	**-28.9**
9. Other profit (loss)	13,197	18,016	36.5	-163	501	-
PROFIT (LOSS) BEFORE TAX	**158,561**	**103,853**	**-34.5**	**16,766**	**12,532**	**-25.3**
10. Corporate income tax	37,878	12,082	-68.1	4,876	5,073	4.0
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**120,683**	**91,771**	**-24.0**	**11,890**	**7,459**	**-37.3**
11. Profit (loss) from discontinued operations	36,382	0	-100.0	0	0	-
Net profit (loss) for the year	**157,065**	**91,771**	**-41.6**	**11,890**	**7,459**	**-37.3**

Source: CNMV.

The rise in net interest income, which tripled in 2018, and the reduction in operating expenses (7.7%) were unable to offset the aforementioned reduction in fee income, and therefore operating profit fell by 41.0% to 85.8 million euros.

… and despite the increase in net interest income and the fall in operating expenses.

In line with the pattern observed over recent years, a small number of broker-dealers generated most of the profits in this sub-sector. In particular, 3 broker-dealers accounted for 82% of total profit, which indicates that the sub-sector is becoming increasingly concentrated. This polarisation was also reflected in the number of loss-making firms, which stood at 18 compared with 7 in the previous year. The volume of those losses was also higher than the figure recorded in 2017 as they amounted to 28.8 million euros, twice the figure of the previous year. In general, the

The distribution of profits was uneven amongst entities as only 3 of them concentrated over 82% of total profit and the number of loss-making entities grew to 18.

figures lead to the conclusion that the larger firms are increasingly profitable, while the smaller firms are suffering greater difficulties.

Brokers are more specialised than broker-dealers and include a much higher proportion of independent entities.

Brokers by definition may not invest on their own account and, therefore, their revenue almost exclusively comes from providing services to third parties. While some, although increasingly fewer, brokers obtain the bulk of their revenue from processing and executing orders, most tend to specialise in certain services, such as marketing CIS or portfolio management. In addition, independent entities are much more important in this sub-sector than in the case of broker-dealers, as they account for practically 60% of the total number of brokers (30 out of 52), while in the case of broker-dealers, this proportion stands at around 20%.

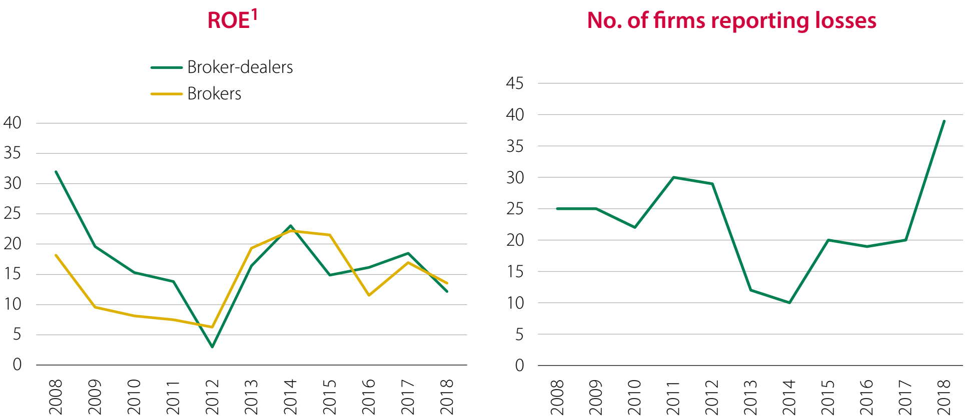
Their aggregate pre-tax profit fell by 25% in 2018 to 12.5 million euros as a result of the greater increase in operating expenses compared with fee income.

Brokers' pre-tax profit fell by 25.2% in 2018 to 12.5 million euros, as the increase in operating expenses, particularly staff costs, was higher than the growth in fee income. The most significant increases in fee income, which rose by 10.0% in absolute terms, were recorded under investment advisory services (122.3%, to 25.7 million euros) and in marketing CIS (7.4%, to 63.8 million euros). Fees for order processing and execution, in contrast, fell by 2.2%, to stand at 20 million euros. These changes in fees, together with the aforementioned 18.0% increase in operating expenses, led to a 28.9% reduction in operating profit, to stand at close to 12 million euros.

The fall in profits of investment firms led to a significant fall in their ROE.

The sector's pre-tax return on equity (ROE) fell during the year from 18.4% to 12.3%, as a result of the poorer profit performance. This reduction was recorded both in broker-dealers and brokers, although it was greater in the former, whose ROE fell by over 6 percentage points to stand at 12.1%. In the case of brokers, the ratio fell from 16.9% to 13.5% (see left-hand panel of Figure 22).

Pre-tax ROE of investment firms and number of loss-making firms FIGURE 22



Source: CNMV.

1 ROE based on profit before tax.

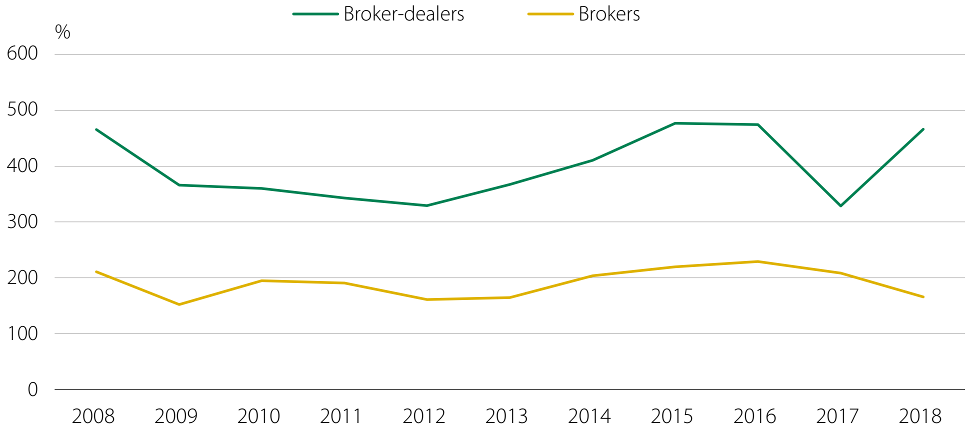
The number of loss-making brokers rose from 13 to 21, and the aggregate volume of said losses also grew.

An analysis by entity reveals that the fall in pre-tax profit affected brokers unevenly, as 57% of those registered both at the end of 2017 and the end of 2018 recorded an improvement in their results. The number of loss-making brokers rose from 13 in 2017 to 21 in 2018, with a total volume of 10.9 million euros, 3 million euros up on the figure recorded in the previous year.

The solvency levels of the sector remained high during 2018, also leading to an increase in the values on the previous year. Accordingly, at the end of 2018, surplus capital was 4.3 times higher than the capital required compared with 3.2 times higher at the end of 2017. As usual, this margin was generally greater for broker-dealers than for brokers. In addition, in the case of the former, the ratio increased from 3.3 to 4.7, while for the latter it fell from 2.1 to 1.7 (see Figure 23). With regard to the distribution of this ratio, most broker-dealers continued to have surplus capital greater than 200%, while brokers recorded a wider range of figures. It should also be mentioned that two brokers closed the year with a capital deficit, although of a small amount. It is important to indicate that the surplus capital ratios which are high in relative terms represent low absolute figures, which might turn out to be insufficient in the event of significant impacts.

The sector's solvency levels remained high in 2018, although they rose in broker-dealers and fell in brokers.

Investment firm capital adequacy (Surplus of eligible capital over minimum capital requirements) FIGURE 23



Source: CNMV.

Financial advisory firms

The number of financial advisory firms, which had grown sharply since their creation, fell for the first time in 2018, from 171 to 158. Assets under advice, in contrast, rose by 2.8% on the figures for year-end 2017 and stood at 31.7 billion euros, more than double the figure recorded in 2012. As shown in Table 18, the distribution of assets amongst the different types of clients shifted in favour of retail and professional clients, as occurred in 2017. The former grew from accounting for 29.5% of assets under management to 32.5%, while the latter rose from accounting for 21.1% to 22.3%. In contrast, the importance relating to eligible counterparties[31] (under the heading of "Others") fell by 4 percentage points to 45.2%.

The volume of assets under advice by financial advisory firms rose by 2.8% in 2018 to 31.7 billion euros, despite the reduction in the number of firms.

Despite managing a greater volume of assets, fee income fell by 6% in 2018, to 61 million euros. Both fees received directly from clients and those corresponding to

Fee income fell by 6%, as a result of the reduction in fees received both from their clients and from other entities.

31 Eligible counterpart is the classification that MiFID typically gives banks, other financial institutions and governments, and is a category that requires a lower level of protection.

other entities fell in 2018, especially the latter (-21.3% to 10.8 million euros), as a result of the fall in retrocession fees.

Main financial advisory firm variables

TABLE 18

Thousand euros

	2016	2017	2018	% change 18/17
NUMBER OF FIRMS	**160**	**171**	**158**	**-7.6**
ASSETS UNDER ADVICE[1]	**30,174,877**	**30,790,535**	**31,658,460**	**2.8**
Retail clients	7,588,143	9,096,071	10,281,573	13.0
Professional clients	5,654,358	6,482,283	7,052,031	8.8
Others	16,932,376	15,212,181	14,324,856	-5.8
NUMBER OF CLIENTS[1]	**5,923**	**6,775**	**6,542**	**-3.4**
Retail clients	5,510	6,321	6,020	-4.8
Professional clients	327	359	431	20.1
Others	86	95	91	-4.2
FEE INCOME[2]	**52,534**	**65,802**	**61,852**	**-6.0**
Fee income	**51,687**	**65,191**	**61,021**	**-6.4**
From clients	40,717	51,475	50,220	-2.4
From other firms	10,970	13,716	10,800	-21.3
Other income	**847**	**611**	**831**	**36.0**
EQUITY	**24,119**	**32,803**	**33,798**	**3.0**
Share capital	6,834	8,039	6,894	-14.2
Reserves and retained earnings	12,123	13,317	15,469	16.2
Profit (loss) for the year[2]	7,511	11,361	10,746	-5.4
Other own funds	-2,349	86	688	700.0

1 Period-end data at market value.
2 Cumulative data for the period.

Outlook

The medium-term outlook for financial intermediaries is uncertain, due to the competitive environment that they face and the need to promote other lines of business.

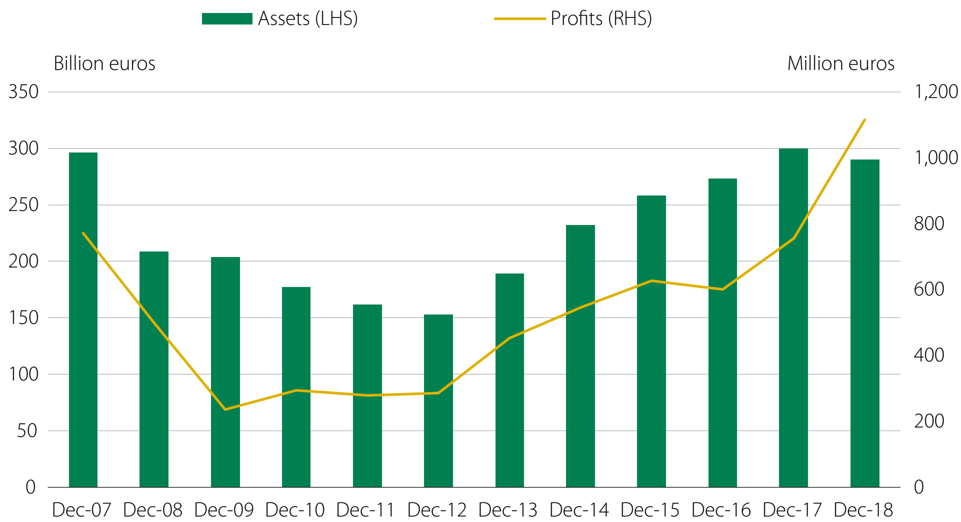
The outlook for non-bank financial intermediaries is somewhat uncertain as a result, on the one hand, of competition from credit institutions in providing investment services and, on the other hand, the shift in trading of Spanish securities towards other markets and MTFs other than the traditional markets. These trends have led to a certain change in the business model of broker-dealers and brokers, which in recent years have started to promote other lines of business that were previously relatively unimportant, to the detriment of the service relating to order processing and execution. It would also be relevant to verify whether the polarisation of the sector is maintained, i.e., the fact that entities recording a positive performance may continue to do so, while those with poorer results face greater difficulties in overcoming their situation.

4.3 CIS management companies

A total of 119 CIS management companies were registered with the CNMV at year-end 2018, 10 more than at year end 2017, following 11 new registrations and 1 de-registration. This trend prolongs the expansion that began in 2014 and moves away from the restructuring process that the sector undertook in previous years. Assets managed by CIS management companies fell by 3.2% over 2018 to slightly above 290 billion euros, thus interrupting the expansive trend that began in 2013 (see Figure 24). Nearly two thirds of the fall took place in the mutual funds segment, whose assets under management were affected by stock market falls, and the rest was due to SICAVs. The level of concentration in the sector remained high in 2018, as the three largest management companies had a joint share of 42% of total assets managed (a similar figure to 2016 and 2017).

The assets managed by CIS management companies fell by 3.2% in 2018, to 290 billion euros, which interrupted the expansion that began in 2013…

CIS management companies: assets under management and pre-tax profits FIGURE 24



Source: CNMV.

Despite the fall in the assets managed by management companies, their aggregate profits before tax rose by 47.8% on 2017, to 1.12 billion euros. This growth was the result of the increase in net fees, and within these, those relating to portfolio management, which doubled in amount. CIS management fees – which are by far the largest, with around 83% of total fees received by management companies (almost 90% in 2017) – remained practically stable (1.5 million euros more, to 2.65 billion euros). These fees amounted to a total amount equivalent to 0.91% of the assets under management, above the figure of 0.88% recorded at year end 2017. This is possibly the result of the rearrangement of the assets managed by mutual funds to higher-risk categories, which are generally associated with higher fees. The growth in profits led to a substantial increase in return on equity (ROE), although it should be indicated that the improvement was not evenly spread across entities, as the number of loss-making companies rose from 19 to 26 between 2017 and 2018, and the volume of said losses almost doubled, rising from 6.6 million to 12.3 million.

… but this did not prevent a sharp increase in the profits of these companies, which was the result of the growth in portfolio management fees (CIS management fees remained stable).

CIS management companies: assets under management and CIS management fees and fee ratio TABLE 19

Million euros

	Assets under management	CIS management fee income	Average CIS management fee (%)	Fee ratio (%)[1]
2010	177,055	1,639	0.93	67.24
2011	161,481	1,503	0.93	65.60
2012	152,959	1,416	0.93	64.62
2013	189,433	1,594	0.84	61.94
2014	232,232	2,004	0.85	61.80
2015	258,201	2,442	0.95	63.68
2016	272,906	2,347	0.86	61.67
2017	299,974	2,647	0.88	58.68
2018	290,438	2,649	0.91	56.13

Source: CNMV.

1 Ratio of fee expenses for fund marketing to fee income from CIS management.

4.4 Other intermediaries: venture capital and crowdfunding platforms

Venture capital

The venture capital sector continued to expand in 2018, with an increase of 48 entities in the CNMV's register.

In line with the upward trend being recorded by the venture capital sector, over 2018 the number of entities belonging to this category registered with the CNMV rose by 48 (43 investment vehicles and 5 management companies), following 67 new registrations in 19 de-registrations.

Expansion was generalised across the different types of entity, affecting both traditional venture capital entities and other relatively recent categories…

With regard to traditional venture capital entities,[32] there was a total of 37 new registrations and 13 de-registrations, leading to a total of 181 venture capital funds and 121 venture capital companies at the end of the year. In the case of SME venture capital entities, there were 2 new registrations in 2018, leading to a total of 27 vehicles (10 funds and 17 companies) at 31 December 2018. In addition, 3 European venture capital funds (EuVECA) registered, leading to a total of 8, and 1 European social entrepreneurship fund (EuSEF) registered, the first to exist in Spain.[33]

… which include closed-ended collective investment undertakings, which have a high degree of flexibility in their investment policy.

Closed-ended collective investment undertakings also recorded significant growth, as there was a total of 31 at year-end 2018 compared with 15 in the previous year (12 funds and 19 companies). This investment category enjoys a great deal of flexibility

32 Traditional entities are deemed to be those categories existing prior to entry into force of Law 22/2014, of 12 November.

33 EuVECA and EuSEF are categories provided for in Regulation (EU) No. 345/2013 of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds and Regulation (EU) No. 346/2013 of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds.

with regard to its investment policy and compliance with investment ratios, which are more restrictive in the case of venture capital entities. This is demonstrated by the fact that 6 of the 10 new closed-ended collective investment undertakings in the form of funds registered in 2018 were former venture capital funds.

Movements in the venture capital entity register in 2018 TABLE 20

	Situation at 31/12/2017	New registrations	De-registrations	Situation at 31/12/2018
Companies				
Venture capital funds	173	21	13	181
SME venture capital funds	12	1	3	10
European venture capital funds	5	3	0	8
European Social Entrepreneurship Funds	0	1	0	1
Venture capital companies	105	16	0	121
SME venture capital companies	16	1	0	17
Total venture capital entities	**311**	**43**	**16**	**338**
Closed-ended collective investment funds	2	10	0	12
Closed-ended collective investment companies	13	6	0	19
Total closed-ended collective investment entities	**15**	**16**	**0**	**31**
Closed-ended investment scheme management companies	**89**	**8**	**3**	**94**

Source: CNMV.

The preliminary data for 2018 provided by the Spanish Capital, Growth and Investment Association (Spanish acronym: ASCRI) indicate, as mentioned above, that the sector continued growing at a good rate, with an investment volume of 5.84 billion euros, 17.9% up on 2017. In this period, it is important to note the intense activity of international funds, which accounted for 77% of the total investment volume, with a figure of almost 4.5 billion euros spread over 118 deals, and which played a particularly significant role in megadeals (those of greater than 100 million euros). These megadeals, of which there was a total of 8 (11 in 2017), accounted for, in terms of volume, 63% of the sector's investment. Middle market deals (between 10 million and 100 million euros) continued in similar figures to those of 2017, the year in which they reached historic highs, with a volume of 1.47 billion euros in 56 investments.

According to the preliminary data from ASCRI, the investment of the venture capital sector grew by 17.9% in 2018 to stand at 5.84 billion euros. Particularly noteworthy was the intense activity of international funds, which usually perform larger-sized deals.

From the point of view of the project development stage, venture capital investment (seed and start-up) remained high, although the figures were lower than in 2017, with an investment volume of 417 million euros (538 million in the previous year) spread over 510 deals (560 in 2017). As in previous years, these investments were mainly made by private national funds. Fundraising by private national operators maintained the buoyancy of previous years, with investment of 2.15 billion euros, 15.3% up on 2017.

Investment in venture capital (seed and start-up) remained high, although with a slightly lower volume than in 2017, and continued to be carried out mostly by national funds.

The initiative through the FOND-ICO Global venture capital fund continued to be extremely important in raising funds in the sector.

The initiative of the ICO, through the FOND-ICO Global venture capital fund, continued to be extremely important in raising funds from the private sector through co-investment. In this regard, there was an increase of around 500 million euros in 2018.

Crowdfunding platforms

Following some initial years of intense activity, the number of crowdfunding platforms registered fell to 5 in 2018…

In 2018, the number of crowdfunding platforms registered over the year continued to fall, after some initial years of intense activity in which, following publication of Law 5/2015, the bulk of the applications concerned platforms that were already operating as such and which, as a consequence of the new regulation, had to adapt to the legislative requirements in order to be able to continue their business.

… leading to a total of 26 platforms in the Register at the end of the year…

A total of 5 new platforms registered in 2018 (8 in 2017), leading to a total of 26 in the CNMV's Register at the end of the year. A total of 12 applications were received in the year (9 in 2017), 1 project (4 in the previous year) was rejected and another 13, 9 more than in 2017, were withdrawn or deemed withdrawn in 2017.

… of which 11 were equity platforms, 10 were lending platforms and 5 were mixed.

Of the 26 platforms registered at the end of December, 11 were equity vehicles, 10 were lending platforms and 5 were mixed. With regard to the sector subject to the investment, it should be pointed out that 4 were real estate platforms (2 equity, 1 lending and 1 mixed). In addition, 2 platforms were controlled by foreign companies.

Number of registered crowdfunding platforms TABLE 21

Platform Type	2017			2018			Cumulative total since 2015		
		of which			of which[1]			of which[1]	
	Total	Madrid	Barcelona	Total	Madrid	Barcelona	Total	Madrid	Barcelona
Equity	**3**	0	2	**3**	1	1	**11**	5	4
Loans	**1**	1	0	**1**	1	0	**10**	6	2
Mixed	**4**	3	0	**1**	0	1	**5**	3	1
TOTAL	**8**	**4**	**2**	**5**	**2**	**2**	**26**	**14**	**7**

Source: CNMV.

1 In addition, one crowdfunding platform with registered address in Soria and another in Valencia were registered in 2016, while one crowdfunding platform with registered address in Santa Cruz de Tenerife and another in Valencia were registered in 2017.