

Banking Outlook

SEPTEMBER 2019

Developments in the Spanish Banking Sector



Net profit of the system in 1Q19

EUR 3,222 million

Key factors

- Control de costes
- Debilidad de ingresos
- Menores provisiones

Improved NPL ratio

5.35% in June 19 vs. 6.39% in June 18

Improved profitability

ROE: 5.8% in 1Q19 vs 5.4% in 1Q18

European Banks: ready for MREL?



As of June 2019, BRRD II set European banks' MREL requirement to be fulfilled with subordinated instruments:

AT1, Tier 2 and senior non-preferred debt

These are the most expensive of all types of MREL-eligible debt



There is high **dispersion** in yield to maturity across countries and ratings



Also, there is high negative **correlation** between rating and yield to maturity



Leveraged loans: recent evolution and side effects

The market of leveraged loans has grown rapidly and currently is at all-time highs

Decline in prices
in July and August 2019

- Leveraged loans** prices fell by 0.5% in the U.S. and by 0.03% in Europe
- CLO prices** declined in the U.S. by 0.1% and 2.4% for AAA and BB, respectively

Main side effects of the growth of the leveraged **loans market**

- The build-up of **excessive leverage** (credit to non-financial corporations to GDP has increased from 85% in 2007 to 91% in 2018 for advanced economies)
- Relaxation** of investor protection schemes

The New TLTRO Program is Launched

The ECB's third **TLTRO** program is launched

Greater initial attractiveness in terms of **cost**

However, Banks should take a more conservative and strategic approach than in **TLTRO II** due to:

- The limit per auction
- The shorter term

Macroprudential Policies in Europe



Macroprudential instruments are a key tool for **financial stability** and systemic risk prevention

Key tool



In Europe: growing use of a wide **variety of instruments** and discretion when calibrating and implementing measures

Europe



In Spain: the recent development of the prudential framework **is positive**

Spain



The advantages and disadvantages of the various tools, along with their impact and suitability must be carefully analyzed to ensure that the implementation costs are recouped **throughout the cycle**

Pros & cons