



Communication Department

## PRESS RELEASE

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### Financial Stability Review. Autumn 2020

The autumn edition of the **Financial Stability Review**, published today on the Banco de España website ([www.bde.es/bde/en/](http://www.bde.es/bde/en/)), contains the following articles:

**“The regulatory and supervisory response to the COVID-19 crisis”, by Rebeca Anguren, Luis Gutiérrez de Rozas, Esther Palomeque and Carlos José Rodríguez García**

The impact of COVID-19 is an unprecedented international challenge and the most severe test of the resilience of the banking industry – and of the financial system as a whole – since the global financial crisis of 2008. The rapid and resolute response of supranational organisations with financial regulatory and supervisory responsibilities has been key to coordinating the actions taken at national level and, thus, safeguard the orderly functioning and stability of the financial system, as well as the uninterrupted financing of the real economy. The article provides an overview of the wide-ranging regulatory and supervisory reaction to COVID-19 and summarises the standards, guidelines and measures promoted since March 2020 by different authorities in the area of microprudential, accounting and macroprudential policies.

**“The challenges of using agencies’ credit ratings in the context of the COVID-19 crisis”, by Elena Rodríguez de Codes, Antonio Marcelo, Roberto Blanco, Sergio Mayordomo, Fabián Arrizabalaga and Patricia Stupariu.**

The economic recession triggered by COVID-19 may lead to the downgrading of public and private issuers’ ratings, given the procyclical behaviour of agencies’ credit ratings. Although the financial system’s reliance on these ratings has decreased since the global financial crisis, they continue to play a significant role for regulatory purposes and when the investment policies of financial intermediaries and central banks are determined. The article describes the challenges posed by the impact that rating downgrades may have on financing conditions in the economy and the potentially adverse effects on monetary policy transmission, financial stability and the real economy. The authors also consider possible measures to mitigate the undesired effects that the mechanical use of these ratings could eventually have.

### **“At-risk measures and financial stability”, by Jorge E. Galán and María Rodríguez-Moreno**

In the context of the downside risk in respect of macrofinancial variables, the authorities need to consider not only the most likely scenario (central tendency) for the future path of macrofinancial variables, but also the distribution of all possible outcomes around that path, focusing on the most adverse outcomes. The so-called “at-risk” methods provide a very useful financial stability tool, enabling non-linear effects on the distribution of macrofinancial variables to be included. This article describes the use of quantile regressions for the calculation of at-risk measures and sets out two applications related to forecasting house prices and to the impact on GDP. The applications allow for a better understanding of how these measures work and of their usefulness for macroprudential policy-making.

### **“Stablecoins: risks, potential and regulation”, by Douglas Arner, Raphael Auer and Jon Frost**

The technologies underpinning electronic money and payment systems are evolving very rapidly and include the advent of “stablecoins”, developed by the private sector. These are cryptocurrencies pegged to traditional fiat currencies or other assets. Stablecoins could be a mechanism for addressing the need to embed a robust monetary instrument into digital environments. These currencies, such as Facebook’s Libra proposal, pose a range of challenges for financial authorities around the world. The authors outline a possible option for authorities, that of embedding regulatory requirements into stablecoin systems themselves, allowing for “embedded supervision”. The article also questions whether central bank digital currencies (CBDCs) could provide a more effective solution than stablecoins in fulfilling the functions required by electronic money and payments.

### **“Digitalisation, retail payments and central bank digital currency”, by Jorge Ponce**

Facing up to the challenges and leveraging the opportunities of digitalisation may require changes to the traditional central bank business model. This article focuses on retail payments, where changes are taking place rapidly and which are in high demand by customers worldwide. On the basis of competition and financial stability considerations, the author provides a rationale for central banks to become more deeply involved in retail payment systems by building and maintaining control of their core components. Central bank digital currency and fast payment systems are assessed as alternative tools available to central banks to foster efficiency, resilience and security in retail payments, as well as to preserve financial stability.

### **“A future-proof retail payments ecosystem for Europe – the Eurosystem’s retail payments strategy and the role of instant payments”, by Mirjam Plooij**

Significant efforts have been made since the inception of the euro to integrate the European market of electronic retail payments, which are an increasingly vital part of the financial infrastructure, as recent experience during the COVID-19 pandemic has underscored. To overcome fragmentation and strengthen the autonomy of the European retail payments market, the Eurosystem supports private initiatives provided that they fulfil the following key objectives: pan-European reach, customer friendliness, cost efficiency, safety and security, European identity and governance, and, in the long run, global reach. Instant payments are well suited to forming the basis for new European solutions and,

accordingly, the Eurosystem promotes their implementation, including in its role as payment system operator, through its TARGET Instant Payment Settlement service.

**“Incorporating sustainability factors into asset management”, by Ricardo Gimeno and Fernando Sols**


This article analyses the reasons why an investor might be interested in investing in a sustainable asset. First, it observes that the rate of return required in the market is lower than that of other assets lacking the sustainable label, even for assets with the same level of risk. The article shows that the investor base for sustainable assets differs from that for conventional assets. The authors therefore argue that investors in these assets use a type of optimisation in which they incorporate sustainability as a third factor, in addition to minimising risk and maximising return, into the selection of their investment portfolios. Lastly, the article explores the various strategies that investors may adopt to incorporate the sustainability factor into their asset portfolios.

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